Tsesna Corporation JSC

Consolidated Financial Statements
for the year ended
31 December 2013

Contents

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Independent Auditors' Report

To the Board of Directors and Management Board of Tsesna Corporation JSC

We have audited the accompanying consolidated financial statements of Tsesna Corporation JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alla Nigay
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate No.536
of 10 January 2003

Ashley Clarke
Audit Partner

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Alla Nigay
General Director of KPMG Audit LLC
acting on the basis of the Charter

3 June 2014

	Note	2013 '000 KZT	2012 '000 KZT
Banking revenue	7	91,704,121	66,640,774
Banking expenses	7	(43,347,481)	(29,001,248)
		48,356,640	**37,639,526**
Non-banking revenue	8	15,110,635	11,710,025
Non-banking cost of sales	8	(11,713,071)	(9,278,532)
		3,397,564	**2,431,493**
Gross insurance premiums written		15,892,350	9,271,641
Written premiums ceded to reinsurers		(9,464,016)	(5,374,184)
Net insurance premiums written		**6,428,334**	**3,897,457**
Change in the gross provision for unearned premiums		(1,918,568)	(1,865,937)
Reinsurer's share of change in the gross provision for unearned premiums		504,723	830,670
Net earned insurance premiums	9	**5,014,489**	**2,862,190**
Insurance claims incurred		(3,230,631)	(845,226)
Reinsurers' share of insurance claims incurred		1,612,806	320,830
Insurance claims incurred, net of reinsurance		**(1,617,825)**	**(524,396)**
Change in gross insurance contract provisions		(674,907)	(680,399)
Change in reinsurers' share in insurance contract provisions		115,035	480,877
Net insurance claims incurred	10	**(2,177,697)**	**(723,918)**
Gross profit		**54,590,996**	**42,209,291**
(Loss)/gain from disposal of subsidiaries	6	(448,872)	3,556,042
Change in fair value of investment property	26	934,022	(442,693)
Other income		199,332	479,269
Distribution expenses	11	(1,620,369)	(1,036,991)
Administrative expenses	12	(24,598,933)	(18,484,472)
Other expenses		(423,946)	(220,925)
Impairment losses	14	(9,584,025)	(8,252,089)
		19,048,205	**17,807,432**
Non-banking finance income	15	160,853	220,597
Non-banking finance costs	15	(970,706)	(770,230)
Profit before income taxes		**18,238,352**	**17,257,799**
Income tax expense	16	(3,961,914)	(3,126,934)
Profit for the year		**14,276,438**	**14,130,865**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(20,610)	17,270
- Net change in fair value transferred to profit or loss		22,923	(74,533)
Foreign currency translation differences		-	(78,453)
Total items that are or may be reclassified subsequently to profit or loss		*2,313*	*(135,716)*
Other comprehensive income for the year		**2,313**	**(135,716)**
Total comprehensive income for the year		**14,278,751**	**13,995,149**
Profit attributable to:			
- Equity holders of the Company		8,860,609	10,011,034
- Non-controlling interest		5,415,829	4,119,831
Profit for the year		**14,276,438**	**14,130,865**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Note	2013 '000 KZT	2012 '000 KZT
Total comprehensive income attributable to:			
- Equity holders of the Company		8,862,045	9,895,446
- Non-controlling interest		5,416,706	4,099,703
Total comprehensive income for the year		**14,278,751**	**13,995,149**
Earnings per share			
Basic earnings per share (KZT)	17	472.57	533.92

These consolidated financial statements were approved by the Management Board on 3 June 2014 and were signed on its behalf by:

Mr. Yedenbayev Y.S.
Chairman

Ms. Sagindykova A.S.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Note	2013 ’000 KZT	2012 ’000 KZT
ASSETS			
Cash and cash equivalents	18	96,959,874	42,893,738
Loans and advances to banks	19	8,458,945	8,733,043
Financial instruments at fair value through profit or loss	20		
- Held by the Group		10,050,460	31,411,145
- Pledged under sale and repurchase agreements		10,900,232	-
Available-for-sale financial assets	21	5,175,737	5,642,870
Loans to customers	23	672,623,529	478,826,293
Held-to-maturity investments	22		
- Held by the Group		22,303,206	18,073,395
- Pledged under sale and repurchase agreements		5,913,997	-
Trade and other receivables	24	30,385,603	27,425,240
Current tax assets		2,583,535	262,949
Inventories	25	2,274,599	2,704,758
Investment property	26	8,922,352	11,917,227
Property, plant and equipment	27	26,559,493	15,898,758
Intangible assets	28	1,107,541	1,133,644
Deferred tax assets	34	-	30,280
Total assets		**904,219,103**	**644,953,340**
LIABILITIES			
Deposits and balances from banks	31	23,307,412	7,786,891
Current accounts and deposits from customers	30	694,231,546	517,821,058
Loans and borrowings	29	88,225,959	48,423,546
Trade and other payables	32	10,687,029	8,531,699
Current tax liabilities		14,567	12,077
Insurance contract provisions	33	6,611,399	4,017,925
Deferred tax liabilities	34	4,357,580	2,126,611
Total liabilities		**827,435,492**	**588,719,807**
EQUITY	35		
Share capital		18,750,000	18,750,000
Reserves for general banking and insurance risks		12,131,875	5,688,653
Dynamic reserve		16,631,209	-
Cumulative translation reserve		-	(33,752)
Revaluation reserve for available-for-sale financial assets		(14,543)	277,865
Additional paid-in capital		(4,031,471)	(4,349,516)
Retained earnings		4,567,494	18,572,708
Total equity attributable to equity holders of the Company		**48,034,564**	**38,905,958**
Non-controlling interest		28,749,047	17,327,575
Total equity		**76,783,611**	**56,233,533**
Total liabilities and equity		**904,219,103**	**644,953,340**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Note	2013 '000 KZT	2012 '000 KZT
OPERATING ACTIVITIES			
Profit for the year		**14,276,438**	**14,130,865**
Adjustments for:			
Depreciation and amortisation		2,054,663	1,496,922
Change in fair value of investment property	26	(934,022)	442,693
Impairment losses	14	9,584,025	8,252,089
Gain from disposal of property, plant and equipment		-	(13,795)
Gain from disposal of investment property		(41,650)	(29,097)
Loss/(gain) from disposal of subsidiary	6	448,872	(3,556,042)
Interest income		(79,368,423)	(56,181,993)
Interest expense		41,484,269	28,294,590
Gain from foreign currency revaluation of financial assets and liabilities		(54,130)	(65,879)
Net loss/(gain) on financial instruments through profit or loss		51,470	(30,725)
Gain on sale of available-for-sale financial assets		(89)	(64,628)
Income tax expense	16	3,961,914	3,126,934
Cash used in operating activities before changes in working capital and provisions		**(8,536,663)**	**(4,198,066)**
(Increase)/decrease in operating assets			
Loans and advances to banks		274,098	(4,104,393)
Financial instruments at fair value through profit or loss		9,904,486	10,506,469
Loans to customers		(189,003,513)	(141,697,904)
Trade and other receivables		(3,806,866)	(14,015,604)
Inventories		173,296	(285,843)
Increase/(decrease) in operating liabilities			
Current accounts and deposits from customers		174,167,835	176,931,593
Amounts payable under repurchase agreements		15,692,818	-
Deposits and balances from banks		15,378,623	(9,687,224)
Insurance contract provisions		2,593,474	2,546,337
Trade and other payables		2,947,911	(3,153,136)
Net cash from operating activities before taxes paid and interest		**19,785,499**	**12,842,229**
Income tax paid		(3,771,219)	(2,772,168)
Interest paid		(38,957,820)	(28,934,430)
Interest received		65,637,997	49,376,022
Cash flows from operating activities		**42,694,457**	**30,511,653**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Note	2013 '000 KZT	2012 '000 KZT
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	27	(11,718,617)	(4,353,907)
Proceeds from disposal of property, plant and equipment		107,193	502,533
Acquisition of investment property	26	(103,107)	(373,050)
Proceeds from disposal of investment property		1,548,348	423,694
Acquisition of intangible assets	28	(347,568)	(658,420)
Proceeds from disposal of intangible assets		1,235	-
Proceeds from disposal of available-for-sale financial assets		459,535	1,024,996
Proceeds from redemption of held-to-maturity investments		9,515,385	11,681,310
Acquisition of available-for-sale financial assets		-	(3,894,138)
Acquisition of held-to-maturity investments		(19,293,360)	(24,270,382)
Disposal of subsidiaries, net of cash disposed of	6	890,094	4,474,797
Cash flows used in investing activities		**(18,940,862)**	**(15,442,567)**
FINANCING ACTIVITIES			
Contribution from non-controlling interest		6,271,327	2,802,528
Proceeds from loans and borrowings		27,391,613	31,967,254
Repayment of loans and borrowings		(3,798,618)	(36,033,376)
Cash flows from/(used in) financing activities		**29,864,322**	**(1,263,594)**
Net increase in cash and cash equivalents		**53,617,917**	**13,805,492**
Effect of changes in exchange rates on cash and cash equivalents		448,219	174,919
Cash and cash equivalents at beginning of year		42,893,738	28,913,327
Cash and cash equivalents at end of year	18	**96,959,874**	**42,893,738**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Attributable to shareholders of the Company									
KZT'000	**Share capital**	**Reserves for general banking risks**	**Cumulative translation reserve**	**Revaluation reserve for available-for-sale financial assets**	**Additional paid in capital**	**Dynamic reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2013	18,750,000	5,688,653	(33,752)	277,865	(4,349,516)	-	18,572,708	38,905,958	17,327,575	56,233,533
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	8,860,609	8,860,609	5,415,829	14,276,438
Other comprehensive income										
Items that are or may be reclassified subsequently to profit or loss:										
Net change in fair value of available-for-sale financial assets	-	-	-	(12,801)	-	-	-	(12,801)	(7,809)	(20,610)
Net change in fair value transferred to profit and loss	-	-	-	14,237	-	-	-	14,237	8,686	22,923
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*1,436*	-	-	-	*1,436*	*877*	*2,313*
Total other comprehensive income	-	-	-	1,436	-	-	-	1,436	877	2,313
Total comprehensive income for the year	**-**	**-**	**-**	**1,436**	**-**	**-**	**8,860,609**	**8,862,045**	**5,416,706**	**14,278,751**
Transactions with owners, recorded directly in equity										
Contribution from non-controlling interest (Note 35(d))	-	1,301,051	33,752	(293,844)	303,555	-	(1,077,953)	266,561	6,004,766	6,271,327
Total transactions with owners	**-**	**1,301,051**	**33,752**	**(293,844)**	**303,555**	**-**	**(1,077,953)**	**266,561**	**6,004,766**	**6,271,327**
Transfer between reserves (Note 35(e, f))	-	5,142,171	-	-	14,490	16,631,209	(21,787,870)	-	-	-
Balance as at 31 December 2013	**18,750,000**	**12,131,875**	**-**	**(14,543)**	**(4,031,471)**	**16,631,209**	**4,567,494**	**48,034,564**	**28,749,047**	**76,783,611**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

	Attributable to shareholders of the Company									
KZT'000	**Share capital**	**Reserves for general banking risks**	**Cumulative translation reserve**	**Revaluation reserve for available-for-sale financial assets**	**Additional paid in capital**	**Dynamic reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2012	18,750,000	1,542,478	44,701	335,840	(4,567,633)	-	11,561,111	27,666,497	12,379,431	40,045,928
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	10,011,034	10,011,034	4,119,831	14,130,865
Other comprehensive income										
Items that are or may be reclassified subsequently to profit or loss:										
Net change in fair value of available-for-sale financial assets	-	-	-	11,200	-	-	-	11,200	6,070	17,270
Net change in fair value transferred to profit and loss	-	-	-	(48,335)	-	-	-	(48,335)	(26,198)	(74,533)
Foreign currency translation differences	-	-	(78,453)	-	-	-	-	(78,453)	-	(78,453)
Total items that are or may be reclassified subsequently to profit or loss	*-*	*-*	*(78,453)*	*(37,135)*	*-*	*-*	*-*	*(115,588)*	*(20,128)*	*(135,716)*
Total other comprehensive income	-	-	(78,453)	(37,135)	-	-	-	(115,588)	(20,128)	(135,716)
Total comprehensive income for the year	**-**	**-**	**(78,453)**	**(37,135)**	**-**	**-**	**10,011,034**	**9,895,446**	**4,099,703**	**13,995,149**
Transactions with owners, recorded directly in equity										
Contribution from non-controlling interest (Note 35(d))	-	-	-	(20,840)	218,117	-	1,146,738	1,344,015	1,458,513	2,802,528
Disposal of subsidiaries (Note 6)	-	-	-	-	-	-	-	-	(610,072)	(610,072)
Total transactions with owners	**-**	**-**	**-**	**(20,840)**	**218,117**	**-**	**1,146,738**	**1,344,015**	**848,441**	**2,192,456**
Transfer between reserves (Note 35(e))	-	4,146,175	-	-	-	-	(4,146,175)	-	-	-
Balance as at 31 December 2012	**18,750,000**	**5,688,653**	**(33,752)**	**277,865**	**(4,349,516)**	**-**	**18,572,708**	**38,905,958**	**17,327,575**	**56,233,533**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 102.

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Tsesna Corporation JSC (the "Company") and its subsidiaries (together referred to as the "Group"). The subsidiaries include a bank, an insurance company, a securities trading and asset management company, property management, food production and trading companies.

The Company was established on 10 May 1988 in the Republic of Kazakhstan. On 15 November 1990 the Company was re-registered as a closed joint-stock company. Due to changes in legislation introduced in 2003, the Company was re-registered as a joint-stock company on 30 June 2004.

The shareholders of the Company are Zhaksybekov A.R. (70%), Zhaksybekov S.R. (9.9%), Mesheryakov N.I. (7.0%), Turgumbayev N.S. (6.0%), Zhaksybek D.A. (4.2%) and Mesheryakov I.N. (2.9%).

The party with ultimate control over the Company is Mr. Zhaksybekov A.R. who has transferred effective control to Mrs. Zhaksybekova L.I. under a trust management agreement.

The Group's registered office is VP-7, 40, Saraishik Street, Esil region, Astana, 010000, the Republic of Kazakhstan.

The majority of the Group's assets and liabilities are located in the Republic of Kazakhstan.

The principal subsidiaries of the Group are as follows:

Name	**Country of incorporation**	**Principal activity**	**2013 Ownership, %**	**2012 Ownership, %**
Finance Holding Tsesna JSC	Kazakhstan	Securities management	100.00	100.00
Medet-Holding LLC	Kazakhstan	Property management	100.00	100.00
Tsesna Capital JSC	Kazakhstan	Brokerage and asset management	-	23.20
Tsesnabank JSC (the "Bank")	Kazakhstan	Banking	14.29	15.91

The Group controls Tsesnabank JSC through joint control with its subsidiary: Finance Holding Tsesna JSC owns 43.98% in Tsesnabank JSC, thus total holding of the Group in the Bank is 58.27%.

The full list of subsidiaries of the Group that are subject to consolidation is included in Note 44.

(b) Business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investment property, financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Note 23 – loan impairment estimates
- Note 26 – estimates of fair value of investment property.

(e) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 *Consolidated Financial statements* (see (i))
- IFRS 11 *Joint Arrangements* (see (ii))
- IFRS 12 *Disclosure of Interests in Other Entities* (see (iii))
- IFRS 13 *Fair Value Measurements* (see (iv))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (v))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (vi)).

The nature and the effect of the changes are explained below.

(i) Subsidiaries, including structured entities

As a result of adoption of IFRS 10, the Group changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities. See notes 3 (a) (i) and (ii).

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees as at 1 January 2013. The Group determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

2 Basis of preparation, continued

(e) Changes in accounting policies, continued

(ii) Joint arrangements

As a result of adoption of IFRS 11, the Group changed its accounting policy for its interest in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

IFRS 11 does not have any impact on the Group because the Group does not have interests in joint ventures.

(iii) Disclosure of Interests in Other Entities

The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

Adoption of IFRS 12 has no impact on the consolidated financial statements of the Group.

(iv) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures* (see Note 42).

As a result, the Group adopted a new definition of fair value, as set out in note 3(e) (vi). The change had no significant impact on the measurements of assets and liabilities. However, the Group included new disclosures in the consolidated financial statements that are required under IFRS 13, comparatives not restated.

(v) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

(vi) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Group included new disclosures in the financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

2 Basis of preparation, continued

(f) Changes in presentation – prior year reclassification

During the preparation of the Group’s consolidated financial statements for the year ended 31 December 2013, management made certain reclassifications affecting the corresponding figures to conform to the presentation of consolidated financial statements for the year ended 31 December 2013.

In the consolidated statement of financial position as at 31 December 2012 mandatory reserve with the NBRK of KZT 6,845,307 thousand was reclassified from deposits and balances with banks and other financial institutions to cash and cash equivalents. As a result, in the consolidated statement of cash flows for the year ended 31 December 2012 cash flows used in operating activities decreased by KZT 2,470,913 thousand. Management believes that this presentation is more appropriate in accordance with IFRS and provides a clearer view of the consolidated financial position and performance of the Group.

The effect of reclassifications on the corresponding figures can be summarised as follows:

’000 KZT	**As reclassified**	**Effect of reclassifications**	**As previously reported**
Consolidated statement of financial position as at 31 December 2012			
Cash and cash equivalents	42,893,738	6,845,307	36,048,431
Deposits and balances with banks and other financial institutions	8,733,043	(6,845,307)	15,578,350
Consolidated statement of cash flows for the year ended 31 December 2012			
Loans and advances to banks	(4,104,393)	(2,470,913)	(1,633,480)
Net cash from operating activities before taxes paid and interest	12,842,229	(2,470,913)	15,313,142
Cash flows from operating activities	30,511,653	(2,470,913)	32,982,566
Cash and cash equivalents as at the beginning of the year	28,913,327	9,316,220	19,597,107
Cash and cash equivalents as at the end of the year	42,893,738	6,845,307	36,048,431

In 2012, the Group also presented gross insurance premiums written, written premiums ceded to reinsurers, change in the gross provision for unearned premiums, reinsurer's share of change in the gross provision for unearned premiums, insurance claims incurred, reinsurers' share of insurance claims incurred, change in gross insurance contract provisions, change in reinsurers' share in insurance contract provisions by grossing up these items in the consolidated statement of profit and loss and other comprehensive income to conform presentation in the current year. The above reclassifications do not impact the Group’s results or equity.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(iii) Acquisitions of entities under common control

The assets and liabilities acquired as a result of acquisition of a controlling interest in an entity that is under common control of the beneficiaries of the Group are recognised at their previous book values as recorded in the individual financial statements of the acquiree. The difference between the consideration paid for the acquisition and the carrying value of net assets acquired is recognised directly in equity attributable to equity holders of the Company.

(iv) Disposals of subsidiaries to entities under common control

Any difference between the consideration received upon disposal of a subsidiary to an entity under common control and the carrying value of net assets disposed is recognised directly in equity attributable to equity holders of the Company.

(v) Acquisitions and disposals of non-controlling interest

A difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised directly in the equity attributable to equity holders of the Company.

Any difference between the consideration received upon disposal of a non-controlling interest, and the carrying amount of that portion of the Company's interest in the subsidiary is recognised directly in the equity attributable to equity holders of the Company.

(vi) Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Interests in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(vi) Associates, continued

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Non-controlling interest

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3 Significant accounting policies, continued

(e) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(i) Classification, continued

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Financial assets or liabilities originated at interest rates different from market rates

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

(ix) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(x) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(x) Derivative financial instruments, continued

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(xi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

3 Significant accounting policies, continued

(f) Property, plant and equipment, continued

(iii) Depreciation, continued

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings and construction in use 25-50 years
- Elevator equipment 15-30 years
- Other equipment and other property, plant and equipment 2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Intangible assets

(i) Measurement

Intangible assets that are acquired by the Group and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Patents, licences and trademarks 3-7 years
- Computer software 5-7 years
- Other 5-7 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the statement of financial position.

3 Significant accounting policies, continued

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(j) Asset classified as held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3 Significant accounting policies, continued

(l) Impairment, continued

(i) Financial assets carried at amortised cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3 Significant accounting policies, continued

(l) Impairment, continued

(iii) Available-for-sale financial assets, continued

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

3 Significant accounting policies, continued

(n) Credit related commitments, continued

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

(o) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in profit or loss. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determining using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on an amortised cost basis.

(iii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Kazakhstan.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(p) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(q) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

3 Significant accounting policies, continued

(r) Banking revenue

(i) Interest income and expense and dividend income

Interest income and expense are recognised in profit or loss using the effective interest method.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

(ii) Fee and commission income and expense

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method. Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

(s) Non-banking revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

(ii) Sale of real estate property

Revenue from sale of real estate is accounted for as a sale of goods and recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, which is considered to be the date when the respective building is approved by the State commission organised by the local regulating authorities for acceptance of finished buildings (“State commission”), and acts of acceptance are signed by representatives of the Group and its customers. Sales are recognised at prices valid at the date of concluding the sales contract, which may be significantly different from the prices as at the date when the sale is recognised.

(iii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Revenue comprises fair value of the consideration received or receivable, net of value added tax and discounts.

(t) Non-banking finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3 Significant accounting policies, continued

(t) Non-banking finance income and costs, continued

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(u) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption is that the carrying amount of investment property will be recovered through sale.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Earnings per share

The Group presents basic earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. The Company has no dilutive shares.

(w) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Chairman of the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3 Significant accounting policies, continued

(w) Segment reporting, continued

Segment results that are reported to the Chairman of the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, investment property and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

(x) Insurance contracts

(i) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

(ii) Recognition and measurement of contracts

Premiums

General business premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

3 Significant accounting policies, continued

(x) Insurance contracts, continued

(ii) Recognition and measurement of contracts, continued

Claims

Claims comprise claims and claim handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(iii) Reinsurance assets

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted as for financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as reinsurers' share in insurance contract provisions in the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(iv) Insurance acquisition costs

Insurance acquisition costs include direct costs such as commissions paid to insurance agents and brokers and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies.

Insurance acquisition costs are expensed as incurred.

3 Significant accounting policies, continued

(x) Insurance contracts, continued

(v) Liability adequacy test

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests.

If a shortfall is identified, an additional provision is established, if necessary. The deficiency is recognised in profit or loss for the year.

(vi) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

(y) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Insurance risk management

The Group issues contracts that transfer insurance risk. This section summarises these risks and the way the Group manages them.

(a) Risk management objectives and policies for mitigating insurance risk

The Group's management of insurance is a critical aspect of the business. For insurance contracts, the objective is to select assets with duration and a maturity value which match the expected cash flows from the claims on those portfolios.

The primary insurance and reinsurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, cargo, health, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting limits; approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The theory of probability is applied to the pricing and provisioning for insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

(i) Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in the business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Group is prepared to underwrite. The strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio.

Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Board of Directors of Tsesna Garant.

(ii) Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys facultative and Excess-of-Loss (XL) based reinsurance to reduce the net exposure and not to exceed the actual margin of solvency.

Ceded reinsurance contains credit risk, and such reinsurance recoveries are reported after deductions for known insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Group does not utilise any stop-loss reinsurance.

4 Insurance risk management, continued

(b) Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

(i) Insurance contracts – Vehicles owner's civil liability and general civil liability

Product features

The Group undertakes general civil liability insurance on compulsory and voluntary types of insurance in the Republic of Kazakhstan, and vehicles owner's civil liability on compulsory types of insurance in the Republic of Kazakhstan. Under these contracts policyholders are reimbursed for any monetary compensation awards paid for the injury caused to body, life, health and (or) property of the third parties. General civil liability is generally considered a 'long tail' line, as it takes a relatively long period of time to finalise and settle claims for a given accident year.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through appropriate pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

(ii) Insurance contracts – Property

Product features

Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to its own material property and business interruption arising from this damage.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (such as a fire or burglary) and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with 'long-tail' classes where the ultimate claim cost takes longer to determine.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

4 Insurance risk management, continued

(b) Terms and conditions of insurance contracts and nature of risks covered, continued

(ii) Insurance contracts – Property, continued

Risk management, continued

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

(iii) Insurance contracts – Cargo

Product features

The Group writes cargo insurance. Cargo insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage of cargo during transportation to the buyers. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim could be characterised as "low effect – high frequency" and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Cargo business is therefore classified as 'short-tail'.

Risk management

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different routes it insures. The risk on any policy will vary according to many factors such as route and destination, safety measures of the carrier, nature of cargo etc. Many commercial cargo proposals will comprise a unique combination of route and destination, type of cargo, and safety measures accepted by carriers. Calculating a premium commensurate with the risk for these policies will be subjective.

Cargo classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a cargo portfolio. Insurance risk is managed primarily through appropriate pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, it is unlikely that concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Cargo supplies are generally made by limited batches and various supplies are not connected.

(c) Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contracts tranche.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography or demographic trend.

4 Insurance risk management, continued

(c) Concentration of insurance risk, continued

The Group's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Group purchases reinsurance coverage for various classes of its liability and property business. The Group assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

(d) Total aggregate exposures

The Group sets out the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Group is exposed. The Group uses a number of modelling tools to monitor aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Group is exposed.

As at 31 December 2013 the Group has 828,058 insurance agreements in force (31 December 2012: 616,307).

(i) Exposure to various business lines

The key concentrations identified as at 31 December 2013 are:

Insurance type	Total insured amount ’000 KZT	Reinsurance amount ’000 KZT	Net retention (after reinsurance) ’000 KZT
Vehicles owner's liability – obligatory	2,206,472,097	1,829,557,475	376,914,622
Civil liability of passenger carrier – obligatory	420,730,511	-	420,730,511
Property – voluntary	198,030,722	22,608,815	175,421,907
Transport and cargo – voluntary	96,195,019	16,709,891	79,485,128
General civil liability – voluntary	31,805,516	3,025,005	28,780,511
Other obligatory	17,578,396	-	17,578,396
Casualty – voluntary	12,703,067	265,956	12,437,111
Other voluntary	13,411,255	52,500	13,358,755
Financial losses liability – voluntary	9,019	-	9,019
Total	**2,996,935,602**	**1,872,219,642**	**1,124,715,960**

(ii) Exposure by other countries

The Group is not exposed to risks in any countries other than the Republic of Kazakhstan, as the Group has no insurance contracts covering risk outside the Republic of Kazakhstan.

(iii) Exposure to catastrophe events

The Group is not exposed to risks of earthquakes, as it has no property insurance contracts covering losses resulted from earthquake.

(e) Claims development

The Group uses statistical methods for insurance contract provisioning. Uncertainty about the amount and timing of claims payment for all insurance contracts is typically resolved within one year.

4 Insurance risk management, continued

(e) Claims development, continued

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these consolidated financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as of the end of 2013 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) – total

	Accident year				
’000 KZT	**2010**	**2011**	**2012**	**2013**	**Total**
Estimate of cumulative claims					
At end of accident year	4,092	90,942	1,536,953	3,776,419	5,408,406
- one year later	1,745	105,426	1,430,556	-	1,537,727
- two years later	1,745	134,289	-	-	136,034
- three years later	1,745	-	-	-	1,745
Estimate of cumulative claims	**1,745**	**134,289**	**1,430,556**	**3,776,419**	**5,343,009**
Cumulative payments to date	(1,745)	(129,716)	(1,375,931)	(2,424,028)	(3,931,420)
Gross outstanding claims liabilities	**-**	**4,573**	**54,625**	**1,352,391**	**1,411,589**

Analysis of claims development (gross) – Vehicle owner’s civil liability

	Accident year				
’000 KZT	**2010**	**2011**	**2012**	**2013**	**Total**
Estimate of cumulative claims					
At end of accident year	982	42,243	1,209,012	2,769,209	4,021,446
- one year later	789	81,634	1,092,515	-	1,174,938
- two years later	789	83,521	-	-	84,310
- three years later	789	-	-	-	789
Estimate of cumulative claims	**789**	**83,521**	**1,092,515**	**2,769,209**	**3,946,034**
Cumulative payments to date	(789)	(79,849)	(1,055,819)	(1,888,856)	(3,025,313)
Gross outstanding claims liabilities	**-**	**3,672**	**36,696**	**880,353**	**920,721**

5 Operating segments

The Group has three reportable segments, as described below, which are the strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- *Financial services* – includes corporate and retail banking operations which include deposit taking and commercial lending, trade finance, settlements and cash operations and insurance of vehicle owners’ civil liability, employers civil liability, property, cargo, vehicle, air, railway and water transport, casualty and other insurance.
- *Construction and property management* – includes construction of real estate and management of investment property.
- *Food products production and trade* – includes production of flour, bakery, macaroni, wholesale and retail trade and management of department stores.

5 Operating segments, continued

Segment breakdown of assets and liabilities is set out below:

	2013 ’000 KZT	2012 ’000 KZT
Assets		
Financial services	879,402,036	617,241,128
Construction and property management	10,585,042	10,683,127
Food products production and trade	10,397,758	14,073,273
Unallocated assets	3,834,267	2,955,812
Total assets	**904,219,103**	**644,953,340**
Liabilities		
Financial services	813,828,885	571,791,471
Construction and property management	7,545,873	7,975,647
Food products production and trade	5,875,488	8,434,615
Unallocated liabilities	185,246	518,074
Total liabilities	**827,435,492**	**588,719,807**

Segment information for the main reportable business segments for the year ended 31 December 2013 is set below:

’000 KZT	Financial services	Construction and property management	Food products production and trade	Unallocated	Total
External revenue	91,644,140	390,270	12,798,926	653,956	105,487,292
Net revenue from other segments	218,240	924,362	2,884,490	363,913	4,391,005
Revenue	**91,862,380**	**1,314,632**	**15,683,416**	**1,017,869**	**109,878,297**
Segment result	**18,787,081**	**(424,046)**	**1,311,001**	**(216,029)**	**19,458,007**
Non-banking finance income	-	95,270	-	104,653	199,923
Non-banking finance costs	-	(580,396)	(837,328)	(1,854)	(1,419,578)
Profit/(loss) before income taxes	**18,787,081**	**(909,172)**	**473,673**	**(113,230)**	**18,238,352**
Income tax expense					(3,961,914)
Profit for the year					**14,276,438**
Other segment items					
Impairment losses	9,569,507	11,584	2,934	-	9,584,025
Capital expenditure	10,999,687	218,868	725,838	224,899	12,169,292
Depreciation/amortisation	1,370,360	18,261	643,540	22,502	2,054,663

5 Operating segments, continued

Segment information for the main reportable business segments for the year ended 31 December 2012 is set below:

’000 KZT	Financial services	Construction and property management	Food products production and trade	Unallocated	Total
External revenue	69,502,964	744,019	10,202,189	763,817	81,212,989
Net revenue from other segments	-	911,840	3,080	341,692	1,256,612
Revenue	**69,502,964**	**1,655,859**	**10,205,269**	**1,105,509**	**82,469,601**
Segment result	**14,823,967**	**(213,155)**	**3,328,162**	**(131,542)**	**17,807,432**
Non-banking finance income	-	219,335	1,262	-	220,597
Non-banking finance costs	-	(428,107)	(340,298)	(1,825)	(770,230)
Profit/(loss) before income taxes	**14,823,967**	**(421,927)**	**2,989,126**	**(133,367)**	**17,257,799**
Income tax expense					(3,126,934)
Profit for the year					**14,130,865**
Other segment items					
Impairment losses	8,172,235	20,629	59,225	-	8,252,089
Capital expenditure	3,094,910	402,481	1,706,111	181,875	5,385,377
Depreciation/amortisation	883,396	36,682	509,066	67,778	1,496,922

Net revenues from other segments represent income and expense from rent, lending and borrowing, sales of goods and services between segments and is determined by using market rates and prices for comparable transactions.

6 Acquisition and disposal of subsidiaries

(a) Acquisition of subsidiary

In accordance with the changes effective from 1 January 2013, to the Law on “Banks and banking activity” № 2444 dated 31 August 1995, the Company cannot directly hold significant portion (more than 25%) of the shares of a bank as it is engaged in commercial activity other than banking. In December 2012 the Group acquired 100% of the shares of Finance Holding Tsesna JSC (“the Holding”) in exchange for 48.94% of the Bank’s shares. Finance Holding Tsesna JSC is an intermediate holding Company. The percentage holding of the Group in the Bank has not changed as a result of this transaction.

(b) Disposal of subsidiary

On 31 December 2013 the Group sold 100% of its stake in Astyk Logistic LLC to a third party for a consideration of KZT 900,000 thousand, which was settled in cash. The subsidiary made a loss of KZT 328,265 thousand during the year, including the loss on disposal of KZT 448,872 thousand.

6 Acquisition and disposal of subsidiaries, continued

(b) Disposal of subsidiary, continued

The disposal of the subsidiaries in 2013 had the following effect on the Group's assets and liabilities at the date of disposal:

'000 KZT	Carrying amount at the date of disposal
Assets	
Cash and cash equivalents	9,906
Trade and other receivables	346,766
Inventories	256,863
Investment property	1,574,654
Property, plant and equipment	214,693
Intangible assets	4,421
	2,407,303
Liabilities	
Loans and borrowings	(19,387)
Trade and other payables	(791,502)
Current tax liability	(5,319)
Deferred tax liabilities	(242,223)
	(1,058,431)
Net identifiable assets and liabilities	**1,348,872**
Consideration received, satisfied in cash	900,000
Net cash inflow	**890,094**

6 Acquisition and disposal of subsidiaries, continued

(b) Disposal of subsidiary, continued

On 20 December 2012 the Group sold 100% of its stake in Zhaltyr Elevator LLC to a third party for a consideration of KZT 3,894,922 thousand, which was settled in cash. The subsidiary contributed KZT 3,267,220 thousand to the net profit for the year, including the gain on disposal of KZT 3,246,335 thousand.

On 3 July 2012 the Group sold 100% of its stake in Football Club Tsesna LLC to a third party for a consideration of KZT 627,588 thousand, which was settled in cash. The subsidiary contributed KZT 249,701 thousand to the net profit for the year, including the gain on disposal of KZT 309,707 thousand.

The disposal of the subsidiaries in 2012 had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal		
'000 KZT	**Zhaltyr Elevator LLC**	**Football Club Tsesna LLC**	**Total**
Assets			
Cash and cash equivalents	38,973	8,740	47,713
Trade and other receivables	201,735	114,324	316,059
Current tax assets	3,170	87	3,257
Inventories	182,732	14,757	197,489
Property, plant and equipment	820,267	666,924	1,487,191
Intangible assets	23	246	269
	1,246,900	**805,078**	**2,051,978**
Liabilities			
Loans and borrowings	-	(177,961)	(177,961)
Trade and other payables	(130,485)	(32,449)	(162,934)
Deferred tax liabilities	(113,249)	(21,294)	(134,543)
	(243,734)	**(231,704)**	**(475,438)**
Net identifiable assets and liabilities	**1,003,166**	**573,374**	**1,576,540**
Consideration received, satisfied in cash	3,894,922	627,588	4,522,510
Cash disposed of	38,973	8,740	47,713
Net cash inflow	**3,855,949**	**618,848**	**4,474,797**

7 Banking revenue and expenses

	2013 '000 KZT	2012 '000 KZT
Interest income		
- Loans to customers	76,226,191	54,154,682
- Financial instruments at fair value through profit or loss	893,416	1,324,383
- Loans and advances to banks	609,339	388,718
- Held-to-maturity investments	1,324,845	181,897
- Available-for-sale financial assets	129,530	88,462
- Repurchase agreements	56,133	-
- Cash and cash equivalents	3,131	22,080
Fee and commission income	9,016,331	8,165,623
Gain on foreign currency spot transactions and derivatives	3,441,391	1,970,741
Net gain on financial instruments through profit or loss	-	251,240
Net gain on available-for-sale financial assets	-	74,533
Dividend income	3,814	18,415
	91,704,121	**66,640,774**
Interest expense		
- Current accounts and deposits from customers	(35,162,555)	(23,697,991)
- Loans and borrowings	(4,604,620)	(2,817,142)
- Deposits and balances from banks and other financial institutions	(934,048)	(901,496)
- Other	(207,616)	(183,515)
Fee and commission expense	(2,378,661)	(1,401,104)
Net loss on financial instruments through profit or loss	(59,981)	-
	(43,347,481)	**(29,001,248)**

Included within various line items under interest income for the year ended 31 December 2013 is a total of KZT 2,139,336 thousand (year ended 31 December 2012: KZT 1,163,559 thousand) accrued on individually impaired financial assets.

Included in interest income on financial instruments at fair value through profit or loss for the year ended 31 December 2013 is a total of KZT 893,416 thousand (year ended 31 December 2012: KZT 1,324,383 thousand) recognised on financial assets at fair value through profit or loss held for trading.

Interest income and expense calculated using the effective interest method and relating to financial assets or liabilities not carried at fair value through profit of loss is KZT 78,349,169 thousand (year ended 31 December 2012: KZT 54,835,839 thousand) and KZT 40,909,839 thousand (year ended 31 December 2012: KZT 27,660,144 thousand), respectively.

8 Non-banking revenue and cost of sales

	2013 '000 KZT	2012 '000 KZT
Revenue		
Sales of agricultural products and foodstuffs	11,461,349	9,520,767
Sale of investment property	1,548,348	423,694
Rent	1,527,795	841,937
Advertising services	381,001	452,767
Storage, shipment and transportation services	91,398	116,372
Sale of apartments	77,406	274,338
Other	23,338	80,150
	15,110,635	**11,710,025**
Cost of sales		
Raw materials	(4,942,579)	(5,157,488)
Merchandise purchased	(2,262,844)	(1,371,211)
Cost of investment property sold	(1,506,698)	(394,597)
Cost of apartments sold	(961,718)	(170,441)
Payroll and related staff costs	(727,086)	(909,377)
Depreciation	(303,502)	(410,365)
Rent of equipment	(268,003)	(167,273)
Utilities	(248,705)	(244,661)
Taxes	(56,368)	(100,597)
Other	(435,568)	(352,522)
	(11,713,071)	**(9,278,532)**

9 Net earned insurance premiums

2013 '000 KZT	Obligatory: Vehicle owner's liability	Obligatory: Other obligatory	Voluntary: Property	Voluntary: Civil liability	Voluntary: Transport and cargo	Voluntary: Other voluntary	Total
Gross premiums written	6,323,111	420,103	1,336,637	2,281,636	4,967,857	563,006	15,892,350
Change in the gross provision for unearned premiums	(501,439)	(40,604)	35,555	36,412	(1,449,626)	1,134	(1,918,568)
Gross earned premiums	**5,821,672**	**379,499**	**1,372,192**	**2,318,048**	**3,518,231**	**564,140**	**13,973,782**
Less: written premiums ceded to reinsurers	(5,094,223)	-	(882,316)	(1,446,301)	(2,023,741)	(17,435)	(9,464,016)
Reinsurers' share of change in the gross provision for unearned premiums	809,648	-	(137,452)	(8,656)	(153,508)	(5,309)	504,723
Ceded earned premiums	**(4,284,575)**	**-**	**(1,019,768)**	**(1,454,957)**	**(2,177,249)**	**(22,744)**	**(8,959,293)**
Net earned premiums	**1,537,097**	**379,499**	**352,424**	**863,091**	**1,340,982**	**541,396**	**5,014,489**

2012 '000 KZT	Obligatory: Vehicle owner's liability	Obligatory: Other obligatory	Voluntary: Property	Voluntary: Civil liability	Voluntary: Transport and cargo	Voluntary: Other voluntary	Total
Gross premiums written	4,337,044	280,486	1,432,558	1,075,704	1,768,506	377,343	9,271,641
Change in the gross provision for unearned premiums	(1,613,705)	70,815	(170,706)	97,723	(335,018)	84,954	(1,865,937)
Gross earned premiums	**2,723,339**	**351,301**	**1,261,852**	**1,173,427**	**1,433,488**	**462,297**	**7,405,704**
Less: written premiums ceded to reinsurers	(2,003,267)	(19,730)	(890,690)	(932,059)	(1,468,742)	(59,696)	(5,374,184)
Reinsurers' share of change in the gross provision for unearned premiums	987,903	(91,062)	31,371	(165,248)	199,241	(131,535)	830,670
Ceded earned premiums	**(1,015,364)**	**(110,792)**	**(859,319)**	**(1,097,307)**	**(1,269,501)**	**(191,231)**	**(4,543,514)**
Net earned premiums	**1,707,975**	**240,509**	**402,533**	**76,120**	**163,987**	**271,066**	**2,862,190**

10 Net insurance claims incurred

	Obligatory		Voluntary				
2013 ’000 KZT	**Vehicle owner’s liability**	**Other obligatory**	**Property**	**Civil liability**	**Transport and cargo**	**Other voluntary**	**Total**
Insurance claims incurred	(866,267)	(63,631)	(4,784)	(8,068)	(356,839)	(318,236)	(1,617,825)
Change in provisions for incurred but not reported claims	(254,845)	(6,819)	(27,764)	(112,834)	(132,435)	(18,279)	(552,976)
Change in provisions for reported but not settled claims	(53,745)	(25,519)	(2,841)	(14,622)	(28,509)	3,305	(121,931)
Change in reinsurers’ share in claims provisions	128,464	-	-	-	(13,429)	-	115,035
Change in net insurance contract provisions	**(180,126)**	**(32,338)**	**(30,605)**	**(127,456)**	**(174,373)**	**(14,974)**	**(559,872)**
Net insurance claims incurred	**(1,046,393)**	**(95,969)**	**(35,389)**	**(135,524)**	**(531,212)**	**(333,210)**	**(2,177,697)**

	Obligatory		Voluntary				
2012 ’000 KZT	**Vehicle owner’s liability**	**Other obligatory**	**Property**	**Civil liability**	**Transport and cargo**	**Other voluntary**	**Total**
Insurance claims incurred	(285,905)	(32,454)	(14,858)	(17,437)	(81,343)	(92,399)	(524,396)
Change in provisions for incurred but not reported claims	(579,633)	(4,331)	(30,782)	573	(12,840)	(15,220)	(642,233)
Change in provisions for reported but not settled claims	(24,632)	(467)	-	(265)	(6,093)	(6,709)	(38,166)
Change in reinsurers’ share in claims provisions	480,877	-	(1)	(1)	-	2	480,877
Change in net insurance contract provisions	**(123,388)**	**(4,798)**	**(30,783)**	**307**	**(18,933)**	**(21,927)**	**(199,522)**
Net insurance claims incurred	**(409,293)**	**(37,252)**	**(45,641)**	**(17,130)**	**(100,276)**	**(114,326)**	**(723,918)**

11 Distribution expenses

	2013 ’000 KZT	2012 ’000 KZT
Payroll and related staff costs	729,609	492,397
Advertising and marketing	148,543	204,909
Depreciation	135,911	26,527
Transportation	131,357	70,410
Repairs and maintenance	130,585	9,388
Inventories	115,322	117,943
Security services	37,585	12,680
Rent	32,652	31,200
Commission expense	5,913	12,637
Other	152,892	58,900
	1,620,369	**1,036,991**

12 Administrative expenses

	2013 ’000 KZT	2012 ’000 KZT
Payroll and related staff costs	12,049,288	9,228,674
Rent	2,760,028	2,091,805
Depreciation and amortisation	1,615,250	1,060,030
Security and maintenance	1,598,196	1,497,040
Contributions to deposit insurance/insurance payment fund	1,080,724	598,558
Taxes other than on income	1,062,719	1,001,956
Advertising and marketing	996,121	702,393
Transportation	481,469	399,478
Communications and information services	450,937	355,723
Travel expenses	295,844	219,498
Charity	192,732	360,479
Professional services	172,243	244,628
Fines and penalties	595	4,881
Other	1,842,787	719,329
	24,598,933	**18,484,472**

13 Personnel costs

	2013 ’000 KZT	2012 ’000 KZT
Employee compensation	12,546,569	9,881,520
Payroll related taxes	959,414	748,928
	13,505,983	**10,630,448**

14 Impairment losses

’000 KZT	Note	1 January 2013	Net charge	Recovery of previously written off balances	Effect of foreign currency translation	Write-offs	31 December 2013
Loans and advances to banks	19	48,130	-	-	-	-	48,130
Available-for-sale financial assets	21	127,368	10,000	-	-	(127,368)	10,000
Held-to-maturity investments	22	1,499,036	384,321	-	-	-	1,883,357
Loans to customers	23	17,986,779	8,691,046	1,540,042	52,933	(31,065)	28,239,735
Trade and other receivables	24	1,428,845	499,737	60,973	547	(235,307)	1,754,795
Inventories	25	84,183	-	-	-	(84,183)	-
Property, plant and equipment	27	15,406	-	-	-	-	15,406
Trade and other payables (provisions)		1,079	(1,079)	-	-	-	-
		21,190,826	**9,584,025**	**1,601,015**	**53,480**	**(477,923)**	**31,951,423**

’000 KZT	Note	1 January 2012	Net charge	Effect of foreign currency translation	Write-offs	31 December 2012
Loans and advances to banks	19	48,130	-	-	-	48,130
Available-for-sale financial assets	21	127,368	-	-	-	127,368
Held-to-maturity investments	22	1,499,036	-	-	-	1,499,036
Loans to customers	23	11,810,569	7,700,627	34,669	(1,559,086)	17,986,779
Trade and other receivables	24	1,059,761	550,383	(19,811)	(161,488)	1,428,845
Inventories	25	84,183	-	-	-	84,183
Property, plant and equipment	27	15,406	-	-	-	15,406
Trade and other payables (provisions)		-	1,079	-	-	1,079
		14,644,453	**8,252,089**	**14,858**	**(1,720,574)**	**21,190,826**

15 Non-banking finance income and costs

	2013 '000 KZT	2012 '000 KZT
Finance income		
Interest income	125,838	21,771
Gain on financial instruments at fair value through profit or loss	17,897	190,247
Foreign exchange gain	12,345	-
Net gain on available-for-sale financial assets	609	-
Dividend income	-	8,579
Other	4,164	-
	160,853	**220,597**
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(575,430)	(694,446)
Loss from call option	(196,698)	-
Dividend expense	(125,000)	-
Foreign exchange losses	(54,130)	(65,879)
Loss on financial instruments at fair value through profit or loss	(9,386)	-
Net loss on sale of available-for-sale financial assets	(520)	(9,905)
Other	(9,542)	-
	(970,706)	**(770,230)**

16 Income tax expense

	2013 '000 KZT	2012 '000 KZT
Current tax expense		
Current year	1,725,565	2,631,605
Overprovided in prior years	(267,123)	(38,898)
	1,458,442	**2,592,707**
Deferred tax expense		
Origination and reversal of temporary differences	2,503,472	469,138
Change in unrecognised temporary differences	-	25,397
Under provided in prior years	-	39,692
	2,503,472	**534,227**
	3,961,914	**3,126,934**

In 2013, the applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate:

	2013 '000 KZT	%	2012 '000 KZT	%
Profit before income taxes	**18,238,352**	**100**	**17,257,799**	**100**
Income tax at applicable tax rate	3,647,670	20	3,451,560	20
Non-deductible expense/(non-taxable income)	581,367	3	(350,817)	(2)
Change in unrecognised temporary differences	-	-	25,397	-
Under provided deferred tax expense in prior years	-	-	39,692	-
Overprovided current income tax in prior years	(267,123)	(1)	(38,898)	-
	3,961,914	**22**	**3,126,934**	**18**

17 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no potentially dilutive ordinary shares.

	2013	2012
Weighted average number of shares for the year ended 31 December, thousands of shares	18,750	18,750
Profit attributable to equity holders of the Company, '000 KZT	8,860,609	10,011,034
Basic earnings per share, KZT	**472.57**	**533.92**

18 Cash and cash equivalents

	2013 '000 KZT	2012 '000 KZT
Cash on hand	**15,486,015**	**10,330,148**
Nostro accounts with the NBRK	**10,621,684**	**29,447,090**
Nostro accounts with other banks		
- rated AA- to AA+	30,985,851	102,772
- rated A- to A+	37,510,906	1,827,316
- rated BBB- to BBB+	191,736	707,753
- rated from BB- to BB+	46,708	148,872
- rated below B+	221,009	93,307
- not rated	243,254	73,551
Total nostro accounts with other banks	**69,199,464**	**2,953,571**
Cash equivalents		
- Term deposits with other banks		
- rated A- to A+	8,973	39,244
- rated BBB- to BBB+	-	3,167
- rated from BB- to BB+	902,417	6,906
- rated below B+	549,940	32,817
- not rated	191,381	80,795
Total term deposits with other banks	**1,652,711**	**162,929**
Total cash and cash equivalents	**96,959,874**	**42,893,738**

The credit ratings are presented by the standards of Fitch's credit rating agency.

None of cash and cash equivalents are impaired or past due.

As at 31 December 2013 the Group had two banks whose balances exceed 10% of equity (2012: one bank). The gross value of these balances as at 31 December 2013 is KZT 67,086,075 thousand (2012: KZT 22,601,783 thousand).

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the two week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Group liabilities. As at 31 December 2013 the minimum reserve is KZT 11,198,521 thousand (31 December 2012: KZT 6,845,307 thousand).

19 Loans and advances to banks

	2013 ’000 KZT	2012 ’000 KZT
Loans and deposits		
- rated A- to A+	-	399,985
- rated BBB- to BBB+	341,945	321,128
- rated from BB- to BB+	18,290	25,485
- rated below B+	275,704	168
- not rated	4,918,002	7,709,272
- defaulted	48,130	48,130
Total loans and deposits	**5,602,071**	**8,504,168**
Reverse repurchase agreements	**2,905,004**	**277,005**
Impairment allowance	(48,130)	(48,130)
Net loans and advances to banks	**8,458,945**	**8,733,043**

The credit ratings are presented by the standards of Fitch’s credit rating agency.

Overdue or impaired loans and advances to banks comprise loans and advances with banks overdue for more than 360 days of KZT 48,130 thousand (2012: overdue for more than 360 days of KZT 48,130 thousand).

The amount of loans and deposits from not rated banks includes KZT 1,697,585 thousand of subordinated debt (2012: KZT 1,660,994 thousand).

(a) Collateral accepted as security for assets

At 31 December 2013 the fair value of financial assets collateralising reverse repurchase agreements that the Group is permitted to sell or repledge in the absence of default is KZT 3,117,919 thousand (2012: KZT 397,331 thousand).

(b) Concentration of deposits and balances to banks and other financial institutions

As at 31 December 2013 the Group has no banks (2012: one bank) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 were KZT 6,845,307 thousand.

20 Financial instruments at fair value through profit or loss

	2013 '000 KZT	2012 '000 KZT
Held by the Group		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	6,878,257	24,156,643
- Total government and municipal bonds	**6,878,257**	**24,156,643**
- Corporate bonds		
rated from BBB- to BBB+	1,691,549	2,134,311
rated from BB- to BB+	1,232,646	4,716,701
not rated	3,661	-
- Total corporate bonds	**2,927,856**	**6,851,012**
Equity investments		
Corporate shares	96,711	70,597
American Depository Receipts	19,168	22,418
Derivative financial instruments		
Call option on purchase of shares	128,468	310,475
	244,347	**403,490**
	10,050,460	**31,411,145**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	10,900,232	-
Total government bonds	**10,900,232**	**-**

The credit ratings are presented by the standards of Fitch's credit rating agency.

None of financial assets at fair value through profit or loss are past due.

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

21 Available-for-sale financial assets

	2013 ’000 KZT	2012 ’000 KZT
Held by the Group		
Debt instruments		
Government and municipal bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	360,991	366,888
Total government and municipal bonds	**360,991**	**366,888**
Corporate bonds		
Corporate bonds rated from BBB- to BBB+	1,129,606	1,135,602
Corporate bonds rated from BB- to BB+	289,099	301,115
Total corporate bonds	**1,418,705**	**1,436,717**
Equity instruments		
Quoted corporate shares	3,363,514	3,796,735
Unquoted corporate shares stated at cost	42,527	169,898
	3,406,041	**3,966,633**
Impairment allowance	(10,000)	(127,368)
	5,175,737	**5,642,870**

Investments without a determinable fair value

Available-for-sale financial assets stated at cost include unquoted equity securities in the energy, entertainment, trade and finance industries. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair values. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

22 Held-to-maturity investments

	2013 '000 KZT	2012 '000 KZT
Government and municipal bonds		
- Regional authorities and municipal bonds	21,243,652	17,178,748
Total government and municipal bonds	**21,243,652**	**17,178,748**
Corporate bonds		
- rated from BBB- to BBB+	922,215	304,828
- rated from BB- to BB+	137,339	149,153
- not rated	1,883,357	1,939,702
Total corporate bonds	**2,942,911**	**2,393,683**
Impairment allowance	(1,883,357)	(1,499,036)
Total net corporate bonds	**1,059,554**	**894,647**
	22,303,206	**18,073,395**
Pledged under sale and repurchase agreements		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5,913,997	-
	28,217,203	**18,073,395**

The credit ratings are presented by reference to the standards of Fitch's credit rating agency.

Analysis of movements in the impairment allowance

	2013 '000 KZT	2012 '000 KZT
Balance at the beginning of the year	1,499,036	1,499,036
Net charge for the year	384,321	-
Balance at the end of the year	**1,883,357**	**1,499,036**

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Astana-Nedvizhimost JSC ("Astana-Nedvizhimost"). Astana-Nedvizhimost bonds were excluded from trading at KASE in July 2011. As at 31 December 2013 the Group provided 100% impairment allowance on these bonds in the amount of KZT 1,883,357 thousand (2012: 83% and KZT 1,499,036 thousand, respectively).

23 Loans to customers

	2013 '000 KZT	2012 '000 KZT
Loans to corporate customers		
Loans to large corporates	190,772,328	300,358,958
Loans to small and medium size companies	389,584,575	134,135,348
Total loans to corporate customers	**580,356,903**	**434,494,306**
Loans to retail customers		
Mortgage loans	47,750,621	33,673,640
Consumer loans	27,704,088	23,234,035
Express loans	2,638,825	1,206,821
Car loans	42,303,694	4,115,217
Credit cards	109,133	89,053
Total loans to retail customers	**120,506,361**	**62,318,766**
Gross loans to customers	**700,863,264**	**496,813,072**
Impairment allowance	(28,239,735)	(17,986,779)
Net loans to customers	**672,623,529**	**478,826,293**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers '000 KZT	Loans to retail customers '000 KZT	Total '000 KZT
Balance at the beginning of the year	13,080,721	4,906,058	17,986,779
Net charge (Note 14)	10,452,271	(1,761,225)	8,691,046
Foreign exchange effect	45,857	7,076	52,933
Write-offs	(7,756)	(23,309)	(31,065)
Recovery of previously written-off balances	903,118	636,924	1,540,042
Balance at the end of the year	**24,474,211**	**3,765,524**	**28,239,735**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers '000 KZT	Loans to retail customers '000 KZT	Total '000 KZT
Balance at the beginning of the year	8,697,455	3,113,114	11,810,569
Net charge (Note 14)	5,891,924	1,808,703	7,700,627
Foreign exchange effect	-	34,669	34,669
Write-offs	(1,508,658)	(50,428)	(1,559,086)
Balance at the end of the year	**13,080,721**	**4,906,058**	**17,986,779**

(a) Changes in presentation of comparative information

Following the amendments to the Law of the Republic of Kazakhstan "On private entrepreneurship" dated 31 January, 2006, which came into effect on December 1, 2013, the Group has updated its classification of loans to corporate customers applying these changes prospectively to the balances of loans to large corporate and loans to small and medium size companies disclosed as at 31 December 2013.

23 Loans to customers, continued

(a) Changes in presentation of comparative information

Prior to these amendments the Group distinguished between loans to large corporate and loans to small and medium size entities based on the average number of employees and average annual value of assets of the borrowers. According to the new requirements of the Law "On private entrepreneurship", classification criteria for loans to corporate customers now include average number of employees more than 250 employees (the criteria is unchanged) and (or) average annual income for the last three years more than 3,000,000 times of monthly calculation index.

The Group has determined that retrospective application of the updated classification would be impracticable due to the inability to determine period-specific effects of these changes in presentation on comparative information with the earliest practicable application date being 31 December, 2013. Since certain loans were repaid during the year 2013, the Group does not have information that would allow to fully update classification of loans to customers in accordance with the new legislation retrospectively as at 31 December 2012. However, the Group calculated the effect of these changes on loans remaining in the portfolio as at 31 December 2013. The gross amount of loans that have been transferred from the portfolio of loans to large corporate to loans to small and medium sized companies as at 31 December 2013 is KZT 212,376,671 thousand with a corresponding impairment allowance KZT 7,157,054 thousand.

(b) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans '000 KZT	Impairment allowance '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment	176,636,514	(1,426,947)	175,209,567	0.81
Impaired loans:				
- not overdue	8,518,563	(971,057)	7,547,506	11.40
- overdue less than 90 days	-	-	-	-
- overdue more than 90 days and less than 1 year	5,109,306	(4,570,008)	539,298	89.44
- overdue more than 1 year	507,945	(503,306)	4,639	99.09
Total impaired loans	14,135,814	(6,044,371)	8,091,443	42.76
Total loans to large corporates	**190,772,328**	**(7,471,318)**	**183,301,010**	**3.92**
Loans to small and medium size companies				
Loans without individual signs of impairment	353,825,839	(2,735,921)	351,089,918	0.77
Impaired loans:				
- not overdue	22,820,536	(6,852,689)	15,967,847	30.03
- overdue less than 90 days	1,203,448	(178,088)	1,025,360	14.8
- overdue more than 90 days and less than 1 year	2,293,152	(1,272,632)	1,020,520	55.5
- overdue more than 1 year	9,441,600	(5,963,563)	3,478,037	63.16
Total impaired loans	35,758,736	(14,266,972)	21,491,764	39.90
Total loans to small and medium size companies	**389,584,575**	**(17,002,893)**	**372,581,682**	**4.36**
Total loans to corporate customers	**580,356,903**	**(24,474,211)**	**555,882,692**	**4.22**

23 Loans to customers, continued

(b) Credit quality of loans to customers, continued

	Gross loans ’000 KZT	Impairment allowance ’000 KZT	Net loans ’000 KZT	Impairment to gross loans %
Loans to retail customers				
Mortgage loans				
Not past due	40,489,941	(22,256)	40,467,685	0.05
Overdue less than 30 days	664,830	(10,203)	654,627	1.53
Overdue 30-89 days	424,539	(12,864)	411,675	3.03
Overdue 90-179 days	391,764	(41,749)	350,015	10.66
Overdue more than 180 days	5,779,547	(1,754,316)	4,025,231	30.35
Total mortgage loans	**47,750,621**	**(1,841,388)**	**45,909,233**	**3.86**
Consumer loans				
Not past due	23,215,313	(12,496)	23,202,817	0.05
Overdue less than 30 days	435,647	(9,220)	426,427	2.12
Overdue 30-89 days	286,430	(19,312)	267,118	6.74
Overdue 90-179 days	322,762	(44,311)	278,451	13.73
Overdue more than 180 days	3,443,936	(687,684)	2,756,252	19.97
Total car loans	**27,704,088**	**(773,023)**	**26,931,065**	**2.79**
Express loans				
Not past due	2,226,979	(12,916)	2,214,063	0.58
Overdue less than 30 days	16,478	(2,485)	13,993	15.08
Overdue 30-89 days	32,442	(13,269)	19,173	40.90
Overdue 90-179 days	16,541	(13,890)	2,651	83.97
Overdue more than 180 days	346,385	(301,485)	44,900	87.04
Total express loans	**2,638,825**	**(344,045)**	**2,294,780**	**13.04**
Car loans				
Not past due	39,556,716	(171,719)	39,384,997	0.43
Overdue less than 30 days	1,188,345	(161,186)	1,027,159	13.56
Overdue 30-89 days	1,107,886	(301,790)	806,096	27.24
Overdue 90-179 days	242,154	(71,244)	170,910	29.42
Overdue more than 180 days	208,593	(68,829)	139,764	33.00
Total consumer loans	**42,303,694**	**(774,768)**	**41,528,926**	**1.83**
Credit cards				
Not past due	66,440	(227)	66,213	0.34
Overdue less than 30 days	6,114	(202)	5,912	3.30
Overdue 30-89 days	1,070	(200)	870	18.69
Overdue 90-179 days	195	(174)	21	89.23
Overdue more than 180 days	35,314	(31,497)	3,817	89.19
Total credit cards	**109,133**	**(32,300)**	**76,833**	**29.60**
Total loans to retail customers	**120,506,361**	**(3,765,524)**	**116,740,837**	**3.12**
Total loans to customers	**700,863,264**	**(28,239,735)**	**672,623,529**	**4.03**

23 Loans to customers, continued

(b) Credit quality of loans to customers, continued

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans '000 KZT	Impairment allowance '000 KZT	Net loans '000 KZT	Impairment to gross loans %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment	290,109,710	(3,099,970)	287,009,740	1.07
Impaired loans:				
- not overdue	4,532,138	(629,704)	3,902,434	13.89
- overdue less than 90 days	6,101	(2,829)	3,272	46.37
- overdue more than 90 days and less than 1 year	3,509,524	(1,357,292)	2,152,232	38.67
- overdue more than 1 year	2,201,485	(1,495,584)	705,901	67.94
Total impaired loans	10,249,248	(3,485,409)	6,763,839	34.01
Total loans to large corporates	**300,358,958**	**(6,585,379)**	**293,773,579**	**2.19**
Loans to small and medium size companies				
Loans without individual signs of impairment	123,256,791	(1,261,420)	121,995,371	1.02
Impaired loans:				
- not overdue	4,487,837	(868,627)	3,619,210	19.36
- overdue less than 90 days	784,942	(160,000)	624,942	20.38
- overdue more than 90 days and less than 1 year	1,786,688	(1,251,113)	535,575	70.02
- overdue more than 1 year	3,819,090	(2,954,182)	864,908	77.35
Total impaired loans	10,878,557	(5,233,922)	5,644,635	48.11
Total loans to small and medium size companies	**134,135,348**	**(6,495,342)**	**127,640,006**	**4.84**
Total loans to corporate customers	**434,494,306**	**(13,080,721)**	**421,413,585**	**3.01**

23 Loans to customers, continued

(b) Credit quality of loans to customers, continued

	Gross loans ’000 KZT	Impairment allowance ’000 KZT	Net loans ’000 KZT	Impairment to gross loans %
Loans to retail customers				
Mortgage loans				
Not past due	28,449,888	(279,082)	28,170,806	0.98
Overdue less than 30 days	1,025,993	(154,605)	871,388	15.07
Overdue 30-89 days	938,092	(277,276)	660,816	29.56
Overdue 90-179 days	481,241	(282,468)	198,773	58.70
Overdue more than 180 days	2,778,426	(1,977,100)	801,326	71.16
Total mortgage loans	**33,673,640**	**(2,970,531)**	**30,703,109**	**8.82**
Consumer loans				
Not past due	19,396,853	(70,121)	19,326,732	0.36
Overdue less than 30 days	1,091,505	(41,049)	1,050,456	3.76
Overdue 30-89 days	553,526	(109,068)	444,458	19.70
Overdue 90-179 days	280,409	(123,170)	157,239	43.93
Overdue more than 180 days	1,911,742	(1,184,404)	727,338	61.95
Total consumer loans	**23,234,035**	**(1,527,812)**	**21,706,223**	**6.58**
Express loans				
Not past due	864,887	(5,038)	859,849	0.58
Overdue less than 30 days	9,494	(1,871)	7,623	19.71
Overdue 30-89 days	8,068	(3,300)	4,768	40.90
Overdue 90-179 days	9,067	(7,338)	1,729	80.93
Overdue more than 180 days	315,305	(299,970)	15,335	95.14
Total express loans	**1,206,821**	**(317,517)**	**889,304**	**26.31**
Car loans				
Not past due	3,880,379	(3,690)	3,876,689	0.10
Overdue less than 30 days	38,431	(2,344)	36,087	6.10
Overdue 30-89 days	22,084	(5,440)	16,644	24.63
Overdue 90-179 days	21,420	(7,965)	13,455	37.18
Overdue more than 180 days	152,903	(67,670)	85,233	44.26
Total car loans	**4,115,217**	**(87,109)**	**4,028,108**	**2.12**
Credit cards				
Not past due	42,743	(140)	42,603	0.33
Overdue less than 30 days	8,239	(69)	8,170	0.84
Overdue 30-89 days	293	(11)	282	3.75
Overdue 90-179 days	366	(14)	352	3.83
Overdue more than 180 days	37,412	(2,855)	34,557	7.63
Total credit cards	**89,053**	**(3,089)**	**85,964**	**3.47**
Total loans to retail customers	**62,318,766**	**(4,906,058)**	**57,412,708**	**7.87**
Total loans to customers	**496,813,072**	**(17,986,779)**	**478,826,293**	**3.62**

Interest income for the year ended 31 December 2013 of KZT 2,139,336 thousand (2012: KZT 1,163,559 thousand) has been accrued on impaired loans to customers.

23 Loans to customers, continued

(c) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- quarterly loss rates are based on historic loss experience of 0.77-0.80% and an emergence period of 3 months
- loss migration rates to small and medium sized enterprises are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- a discount of between 10% and 50% to the annually appraised value if the property pledged is sold
- a delay of 6 to 48 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differ by plus or minus one percent, the impairment allowance on loans to corporate customers as at 31 December 2013 would be KZT 5,558,826 thousand lower/higher (2012: KZT 4,214,136 thousand lower/higher).

(ii) Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- a discount of between 10% and 30% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2013 would be KZT 3,502,225 thousand lower/higher (2012: KZT 1,722,381 thousand).

(d) Analysis of collateral

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers to provide it.

23 Loans to customers, continued

(d) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The following table provides the analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December 2013:

31 December 2013 '000 KZT	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	13,250,135	13,250,135	-	-
Traded securities	20,228,918	20,228,918	-	-
Real estate	229,043,635	211,074,894	17,968,741	-
Grain	23,808,899	23,808,899	-	-
Goods in turnover	60,261,337	60,212,632	48,705	-
Motor vehicles	3,632,158	2,933,317	698,841	-
Equipment	10,437,367	10,250,636	186,731	-
Other	313,334	313,334	-	-
Corporate guarantees (unrated) and guarantees of individuals	78,727,103	-	-	78,727,103
No collateral or other credit enhancement	78,142,295	-	-	78,142,295
Other collateral registered subsequently after reporting date	8,454,304	-	-	8,454,304
Total loans without individual signs of impairment	**526,299,485**	**342,072,765**	**18,903,018**	**165,323,702**
Overdue or impaired loans				
Cash and deposits	43,930	43,930	-	-
Real estate	22,083,713	18,506,036	3,577,677	-
Goods in turnover	1,902,441	1,759,314	143,127	-
Motor vehicles	351,218	14,227	336,991	-
Equipment	46,457	-	46,457	-
Other	63	63	-	-
Guarantees	2,700,697	-	-	2,700,697
No collateral or other credit enhancement	2,454,688	-	-	2,454,688
Total overdue or impaired loans	**29,583,207**	**20,323,570**	**4,104,252**	**5,155,385**
Total loans to corporate customers	**555,882,692**	**362,396,335**	**23,007,270**	**170,479,087**

23 Loans to customers, continued

(d) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2012 '000 KZT	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	7,010,987	7,010,987	-	-
Traded securities	14,554,169	14,554,169	-	-
Real estate	127,012,755	124,624,571	2,388,184	-
Grain	57,164,606	57,163,134	1,472	-
Goods in turnover	50,150,859	50,128,103	22,756	-
Motor vehicles	6,675,706	6,483,861	191,845	-
Equipment	9,715,250	9,710,322	4,928	-
Other	409,351	409,094	257	-
Corporate guarantees (unrated) and guarantees of individuals	62,937,248	-	-	62,937,248
No collateral or other credit enhancement	73,374,180	-	-	73,374,180
Total loans without individual signs of impairment	**409,005,111**	**270,084,241**	**2,609,442**	**136,311,428**
Overdue or impaired loans				
Cash and deposits	24,672	24,672	-	-
Real estate	3,075,463	2,556,088	519,375	-
Goods in turnover	1,882,947	1,861,507	21,440	-
Motor vehicles	205,328	97,362	107,966	-
Equipment	60,749	43,812	16,937	-
Other	261	4	257	-
Guarantees	1,457,114	-	-	1,457,114
No collateral or other credit enhancement	5,701,940	-	-	5,701,940
Total overdue or impaired loans	**12,408,474**	**4,583,445**	**665,975**	**7,159,054**
Total loans to corporate customers	**421,413,585**	**274,667,686**	**3,275,417**	**143,470,482**

The tables above exclude the effect of overcollateralisation.

The amount disclosed in the table above within "No collateral or other credit enhancement" line includes uncollateralised loans and portions of loans without full collateral coverage. As at 31 December 2013, the net carrying value of uncollateralised corporate loans is KZT 13,426,543 thousand or 2.41% of the corporate loan portfolio (2012: KZT 6,587,516 thousand or 1.56% of corporate loan portfolio). Part of these corporate loans for the amount of KZT 3,489,340 thousand were repaid in 2014.

The Group has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, and corporate guarantees received from unrated local companies are not considered for impairment assessment purposes.

23 Loans to customers, continued

(d) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 85%. Car loans are secured by cars. The Group's policy is to issue car loans with a loan-to-value ratio of a maximum of 90%. Consumer loans are generally secured by properties and in certain cases by assets including vehicles, cash deposits and guarantees.

Management estimates that the impairment allowance would have been higher by KZT 3,452,011 thousand (2012: KZT 2,775,491 thousand) for mortgage loans, by KZT 2,511,207 thousand (2012: KZT 1,935,738 thousand) for consumer loans and by KZT 1,237,592 thousand (2012: KZT 109,714 thousand) for car loans if collateral was not taken into account.

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2013 '000 KZT	2012 '000 KZT
Trade	173,470,788	191,139,051
Services	93,805,296	66,300,793
Production	90,910,243	43,404,624
Construction	81,535,702	63,350,734
Agriculture	64,238,190	21,767,206
Finance and insurance	39,075,069	31,475,752
Transportation	27,227,574	13,040,384
Education	2,672,982	2,867,052
Public authority companies	40,437	56,218
Other	7,380,622	1,092,492
Total commercial loans	**580,356,903**	**434,494,306**
Loans issued to retail customers		
Mortgage loans	47,750,621	33,673,640
Car loans	42,303,694	4,115,217
Consumer loans	27,704,088	23,234,035
Express loans	2,638,825	1,206,821
Credit cards	109,133	89,053
Total retail loans	**120,506,361**	**62,318,766**
Total loans issued	**700,863,264**	**496,813,072**
Impairment allowance	(28,239,735)	(17,986,779)
	672,623,529	**478,826,293**

(f) Significant credit exposures

As at 31 December 2013 the Group has 20 borrowers or groups of connected borrowers (2012: 22) whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2013 is KZT 193,314,572 thousand (2012: KZT 178,575,424 thousand).

23 Loans to customers, continued

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 36 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than that based on contractual terms.

24 Trade and other receivables

	2013 ’000 KZT	2012 ’000 KZT
Financial assets		
Trade receivables	15,581,763	13,965,431
Insurance and reinsurance receivables	2,061,825	1,766,589
Loans to related parties	-	200,000
Other	84,235	399,612
	17,727,823	**16,331,632**
Non-financial assets		
Refundable advance consideration*	7,585,784	6,744,543
Advances paid for goods and services	4,227,056	2,982,456
Reinsurers' share in insurance provisions	2,436,672	1,816,914
Tax receivables, other than income tax	163,063	109,849
Advances paid for construction work	-	484,366
Deferred insurance acquisition	-	384,325
	14,412,575	**12,522,453**
	32,140,398	**28,854,085**
Impairment allowance (Note 14)	(1,754,795)	(1,428,845)
	30,385,603	**27,425,240**

* On 10 April 2013 the Group entered into an agreement with the shareholders of Plus Bank OJSC to increase the Group’s shareholding of 19% up to 91.09%, subject to Kazakhstan and Russian Federation regulatory approval. Prior to 31 December 2012, the Group acquired certain assets for KZT 6,744,543 thousand which will be used as consideration for the completion of the transaction during one year from date of agreement.

The exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 36.

25 Inventories

	2013 ’000 KZT	2012 ’000 KZT
Raw materials and consumables	1,043,082	1,253,957
Agricultural products and foodstuffs	741,039	409,076
Construction work in progress	358,745	402,066
Apartments for sale	-	512,616
Construction materials	-	26,469
Work in progress, other than construction	-	8,698
Other	131,733	176,059
	2,274,599	**2,788,941**
Impairment allowance	-	(84,183)
	2,274,599	**2,704,758**

26 Investment property

	2013 '000 KZT	2012 '000 KZT
At 1 January	11,917,227	8,766,262
Transfer from financial instruments at fair value through profit or loss (Note 20)	-	3,503,067
Additions	103,107	373,050
Transfer (to)/from property, plant and equipment	(950,652)	176,141
Transfer to inventory	-	(64,003)
Disposals	(1,506,698)	(394,597)
Disposal of subsidiary	(1,574,654)	-
Change in fair value	934,022	(442,693)
At 31 December	**8,922,352**	**11,917,227**

Investment property is mainly located in Astana and Almaty and consists of a number of commercial properties, including four trading centres, stud farm, bread plant and other commercial properties. The Group leases the premises to related and third parties under operating leases.

The total amount of rental income recognised in profit or loss is KZT 1,527,795 thousand (2012: KZT 841,937 thousand); no direct operating expenses arise, except for property tax expense, as in accordance with the rental agreements, all maintenance costs are borne by the tenants.

(a) Fair value as at 31 December 2013

The Group commissioned independent appraisers to appraise investment property as at 31 December 2013.

The fair value of land, trade centres and office buildings reflects market prices in recent transactions. The fair value of other investment property, consisting principally of warehouses and equipment, was based on the income approach. Except for land, trade centers and office buildings, which are appraised on the basis of recent market transactions, the market for other investment property is not active in the Republic of Kazakhstan and does not provide a sufficient number of sales of comparable investment properties for using a comparable sales-based approach for determining fair value.

For the income method the direct capitalisation approach has been used. Cash flows are estimated based on anticipated annual net income generated by the commercial buildings divided by the capitalisation rate. The following key assumptions are used in determination of fair value of warehouses:

	Unit of measurement	2013	2012
Discount rate	%	7-18	7-18
Operating expenses/rental income	%	5-44	5-44
Occupancy rate, average	%	83-92	83-92
Rental rates			
- Warehouses	KZT per m^2	1,400-11,000	1,400-11,000
- Office premises	KZT per m^2	4,000-22,000	4,000–22,000

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

A change in the discount rate by 1% would have the following effect on the value of investment property:

'000 KZT	2013	2012
1% increase in rental yield	(557,647)	(767,121)
1% decrease in rental yield	637,311	880,475

26 Investment property, continued

(b) Security

Investment property with a carrying amount of KZT 260,397 thousand (2012: KZT 1,697,202 thousand) is pledged as security for bank loan agreements.

(c) Litigation on land

The Group is undergoing a litigation with respect to ownership title for land plots included in the investment property as at 31 December 2013 in the amount of KZT 3,503,067 thousand. In the unlikely outcome of the Group's position not being sustained in the court, the Group would derecognize the value of land plots in the consolidated financial statements. However, management considers that it has implemented all the necessary safeguards and gathered all the relevant evidence to ensure that the Group's position is sustained in the court, and therefore no provision is recognised in these consolidated financial statements.

27 Property, plant and equipment

'000 KZT	**Land and buildings**	**Equipment and other**	**Construction in progress**	**Total**
Cost				
Balance at 1 January 2012	8,483,648	7,467,447	3,044,884	18,995,979
Additions	299,956	2,126,398	1,927,553	4,353,907
Disposal of subsidiaries	(1,661,298)	(255,646)	(1,451)	(1,918,395)
Disposals	(163,460)	(511,307)	(309,582)	(984,349)
Transfer from/(to) investment property	(44,855)	15,205	(146,491)	(176,141)
Transfer to intangible assets	-	-	(16,256)	(16,256)
Transfers	3,076,389	1,418,458	(4,494,847)	-
Balance at 31 December 2012	9,990,380	10,260,555	3,810	20,254,745
Additions	7,637,395	3,083,827	997,395	11,718,617
Disposal of subsidiaries	(126,058)	(176,511)	(69,575)	(372,144)
Disposals	(49,009)	(398,369)	(12,468)	(459,846)
Transfer from/(to) investment property	1,116,491	-	(165,839)	950,652
Transfer to intangible assets	-	(46)	-	(46)
Transfers	104,590	153,322	(257,912)	-
Balance at 31 December 2013	**18,673,789**	**12,922,778**	**495,411**	**32,091,978**
Depreciation and impairment losses				
Balance at 1 January 2012	(1,148,714)	(2,893,631)	-	(4,042,345)
Depreciation charge	(246,239)	(994,218)	-	(1,240,457)
Disposals	54,759	440,852	-	495,611
Disposal of subsidiaries	315,991	115,213	-	431,204
Transfers	194	(194)	-	-
Balance at 31 December 2012	(1,024,009)	(3,331,978)	-	(4,355,987)
Depreciation charge	(308,539)	(1,377,925)	-	(1,686,464)
Disposals	14,055	338,598	-	352,653
Disposal of subsidiaries	76,245	81,206	-	157,451
Transfers to intangible assets	(138)	-	-	(138)
Balance at 31 December 2013	**(1,242,386)**	**(4,290,099)**	**-**	**(5,532,485)**
Net book value				
At 1 January 2012	7,334,934	4,573,816	3,044,884	14,953,634
At 31 December 2012	8,966,371	6,928,577	3,810	15,898,758
At 31 December 2013	**17,431,403**	**8,632,679**	**495,411**	**26,559,493**

27 Property, plant and equipment, continued

Depreciation expense of KZT 303,502 thousand is charged to cost of sales (2012: KZT 410,365 thousand), KZT 135,911 thousand to distribution expenses (2012: KZT 26,527 thousand) and KZT 1,247,051 thousand to administrative expenses (2012: KZT 803,565 thousand).

Security

At 31 December 2013 property, plant and equipment and investment property with a carrying amount of KZT 4,040,177 thousand are subject to a registered debenture to secure bank loans (2012: KZT 6,912,252 thousand) (Note 29).

28 Intangible assets

’000 KZT	Patents and trademarks	Computer software	Other	Total
Cost				
Balance at 1 January 2012	320,434	1,156,348	71,120	1,547,902
Additions	1,952	632,785	23,683	658,420
Transfer from property, plant and equipment	-	16,256	-	16,256
Disposal of subsidiaries	-	-	(1,210)	(1,210)
Disposals	-	(91)	(108)	(199)
Balance at 31 December 2012	322,386	1,805,298	93,485	2,221,169
Additions	-	346,203	1,365	347,568
Transfer from property, plant and equipment	-	46	-	46
Disposal of subsidiaries	-	(9,870)	-	(9,870)
Disposals	(267)	(3,849)	-	(4,116)
Balance at 31 December 2013	**322,119**	**2,137,828**	**94,850**	**2,554,797**
Amortisation				
Balance at 1 January 2012	(244,929)	(529,393)	(57,878)	(832,200)
Amortisation charge	(23,513)	(216,032)	(16,920)	(256,465)
Disposal of subsidiaries	-	-	941	941
Disposals	-	89	110	199
Balance at 31 December 2012	(268,442)	(745,336)	(73,747)	(1,087,525)
Amortisation charge	(221)	(351,522)	(16,456)	(368,199)
Transfer from property, plant and equipment	-	138	-	138
Disposal of subsidiaries	-	5,449	-	5,449
Disposals	267	2,614	-	2,881
Balance at 31 December 2013	**(268,396)**	**(1,088,657)**	**(90,203)**	**(1,447,256)**
Net book value				
At 1 January 2012	75,505	626,955	13,242	715,702
At 31 December 2012	53,944	1,059,962	19,738	1,133,644
At 31 December 2013	**53,723**	**1,049,171**	**4,647**	**1,107,541**

Amortisation expense of KZT 368,199 thousand has been charged to administrative expenses (2012: KZT 256,465 thousand).

29 Loans and borrowings

This note provides information about the contractual terms of loans and borrowings, which are measured at amortised cost. For more information about the exposure to interest rate, foreign currency and liquidity risk, see Note 36.

	2013 ’000 KZT	2012 ’000 KZT
Subordinated bonds	41,754,090	26,456,959
Unsecured bond issues	21,034,581	8,759,063
Amounts payable under repurchase agreements	16,282,923	429,009
Bank loans	4,259,032	5,004,870
Cumulative non-redeemable preference shares	4,895,333	4,745,263
Loans from non-banks	-	2,076,801
Subordinated loans	-	936,334
Finance lease	-	15,247
	88,225,959	**48,423,546**

(a) Amounts payable under repurchase agreements

As at 31 December 2013 amounts payable under repurchase agreements of KZT 15,945,917 thousand (2012: nil) are collateralised by financial instruments at fair value through profit or loss (Note 20) and held-to-maturity investments (Note 22):

	2013 ’000 KZT	2012 ’000 KZT
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	16,282,923	-
	16,282,923	**-**

Remaining amounts payable under repurchase agreements of KZT 337,006 thousand (2012: nil) are collateralised by shares of Tsesnabank JSC with a carrying value of KZT 243,918 thousand (2012: nil).

(b) Subordinated bonds

The summary of subordinated bonds at 31 December 2013 and 2012 is presented below:

					Carrying amount	
	Issue date	**Maturity**	**Coupon rate**	**Effective rate**	**2013 ’000 KZT**	**2012 ’000 KZT**
KZT denominated bonds of the fifth issue	28.06.2006	28.06.2014	6.5%	10.1%	3,041,894	2,782,800
KZT denominated bonds of the eighth issue	13.04.2011	13.04.2018	8.0%	8.1%	5,538,730	5,544,487
KZT denominated bonds of the tenth issue	30.06.2011	12.07.2014	8.0%	10.7%	3,940,214	3,671,589
KZT denominated bonds of the eleventh issue	01.02.2012	01.02.2019	8.0%	9.2%	4,941,904	4,915,773
KZT denominated bonds of the twelfth issue	02.08.2012	02.08.2019	8.0%	9.7%	3,840,816	3,807,293
KZT denominated bonds of the thirteenth issue	02.08.2012	02.08.2019	8.0%	9.7%	5,792,184	5,735,017
KZT denominated bonds of the fourteenth issue	04.06.2013	04.06.2020	8.0%	9.7%	4,659,348	-
KZT denominated bonds of the fifteenth issue	04.06.2013	04.06.2023	8.0%	9.7%	4,482,991	-
KZT denominated bonds of the sixteenth issue	04.06.2013	04.06.2028	9.0%	9.7%	4,657,860	-
KZT denominated bonds	19.03.2013	19.03.2020	8.0%	9.7%	858,149	-
					41,754,090	**26,456,959**

29 Loans and borrowings, continued

(c) Unsecured bond issues

As at 31 December 2013 bonds were issued by Tsesnabank JSC of KZT 21,034,581 thousand bearing an average interest of 8.31% per annum maturing in 2014-2027 (2012: KZT 8,759,063 thousand; 9.53%).

During the year ended 31 December 2013, the Group redeemed unsecured bonds of KZT nil (2012: KZT 3,036,122 thousand).

(d) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive an annual dividend equal to the inflation rate plus 3% but not more than 10% of the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Group’s residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. As at 31 December 2013 the Group has 3,750,000 preference shares issued and fully paid at par with a par value of KZT 1,000 (2012: 3,750,000 preference shares).

During the year ended 31 December 2013, the Group accrued dividends on preference shares amounting to KZT 250,000 thousand (31 December 2012: KZT 250,000 thousand).

(e) Bank loans

Terms and conditions of outstanding bank loans at 31 December 2013 are as follows:

	Currency	Nominal interest rate	Year of maturity	Face value '000 KZT	Carrying value '000 KZT
ATF Bank JSC	USD	8%	2017	451,701	451,701
ATF Bank JSC	USD	8%	2017	420,687	420,687
ATF Bank JSC	USD	8%	2017	327,200	327,200
ATF Bank JSC	USD	8%	2017	304,456	304,456
ATF Bank JSC	USD	8%	2017	255,201	255,201
ATF Bank JSC	KZT	8%	2017	223,892	223,892
ATF Bank JSC	KZT	8%	2017	218,144	218,144
ATF Bank JSC	USD	8%	2017	142,565	142,565
ATF Bank JSC	USD	8%	2017	103,523	103,523
ATF Bank JSC	USD	8%	2017	94,180	94,180
ATF Bank JSC	USD	8%	2017	67,171	67,171
ATF Bank JSC	KZT	8%	2017	61,339	61,339
ATF Bank JSC	KZT	8%	2017	53,156	53,156
ATF Bank JSC	USD	8%	2017	41,774	41,774
ATF Bank JSC	USD	8%	2017	8,619	8,619
ATF Bank JSC	KZT	8%	2017	12,999	13,153
Halyk Bank JSC	KZT	7%	2018	1,366,504	1,366,504
Halyk Bank JSC	KZT	14%	2015	105,890	105,890
LC Astana Finance	KZT	15%	2016	31	31
				4,259,032	**4,259,186**

29 Loans and borrowings, continued

(e) Bank loans, continued

Terms and conditions of outstanding bank loans at 31 December 2012 were as follows:

	Currency	Nominal interest rate	Year of maturity	Face value '000 KZT	Carrying value '000 KZT
ATF Bank JSC	USD	6 month libor +11.58%	2016	581,868	581,868
ATF Bank JSC	USD	5%	2017	539,540	539,540
ATF Bank JSC	USD	5%	2017	419,642	419,642
ATF Bank JSC	USD	5%	2017	390,483	390,483
ATF Bank JSC	KZT	5%	2017	372,505	372,505
ATF Bank JSC	KZT	5%	2017	366,762	366,762
ATF Bank JSC	USD	5%	2017	327,227	327,227
ATF Bank JSC	USD	5%	2017	290,705	290,705
ATF Bank JSC	USD	5%	2017	132,770	132,770
ATF Bank JSC	USD	5%	2017	120,788	120,788
ATF Bank JSC	USD	5%	2017	86,148	86,148
ATF Bank JSC	KZT	5%	2017	80,167	80,167
ATF Bank JSC	KZT	5%	2017	69,472	69,472
ATF Bank JSC	USD	5%	2017	53,576	53,576
ATF Bank JSC	KZT	5%	2017	17,191	17,191
ATF Bank JSC	USD	5%	2017	11,066	11,066
Halyk Bank JSC	KZT	7%	2018	983,603	983,603
Halyk Bank JSC	KZT	14%	2015	161,357	161,357
				5,004,870	**5,004,870**

During 2012 part of loans from ATF Bank JSC and Halyk Bank JSC were refinanced at a lower interest rates following a subsidy provided by the government of the Republic of Kazakhstan.

Collateral

Loans listed in the table above are used to purchase equipment and to support working capital needs and are secured by property, plant and equipment and investment property with a carrying value of KZT 4,300,574 thousand (2012: KZT 8,077,475 thousand).

30 Current accounts and deposits from customers

	2013 '000 KZT	2012 '000 KZT
Current accounts and demand deposits		
- Corporate	106,845,793	126,798,439
- Retail	9,498,203	7,497,961
- Accrued interest	13,479	28
Term deposits		
- Corporate	371,822,004	233,038,209
- Retail	201,814,128	148,477,684
- Accrued interest	4,237,939	2,008,737
	694,231,546	**517,821,058**

(a) Blocked accounts

As at 31 December 2013, the Group maintained customer deposit balances of KZT 17,081,727 thousand (2012: KZT 15,947,688 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

(b) Concentrations of current accounts and customer deposits

As at 31 December 2013, the Group has 16 customers (2012: 19 customers), whose balances exceed 10% of equity. These balances as at 31 December 2013 are KZT 284,712,691 thousand (2012: KZT 220,841,062 thousand).

31 Deposits and balances from banks

	2013 '000 KZT	2012 '000 KZT
Loans and deposits from commercial banks and other financial institutions	23,263,561	7,747,450
Vostro accounts	43,851	39,441
	23,307,412	**7,786,891**

Concentration of deposits and balances from banks

As at 31 December 2013 the Group has one financial institution (2012: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is KZT 10,352,730 thousand (2012: KZT 6,386,262 thousand).

31 Deposits and balances from banks, continued

Foreign currency contracts

The table below summarises by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2013 and 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in deposits and balances from banks and other financial institutions. As at 31 December 2013 and 2012 all contracts were concluded through Kazakhstan Stock Exchange.

	Notional amount		Weighted average contractual exchange rates	
	2013 ’000 KZT	2012 ’000 KZT	2013	2012
Buy USD sell KZT				
Less than 3 months	-	1,055,180	-	150.77
Sell USD buy KZT				
Less than 3 months	45,446,200	-	154.06	-
	45,446,200	**1,055,180**		

32 Trade and other payables

	2013 ’000 KZT	2012 ’000 KZT
Financial liabilities		
Trade payables	4,348,105	3,870,387
Payables to re-insurers, intermediaries, and other insurance related payables	410,215	448,580
Other	679,836	808,897
	5,438,156	**5,127,864**
Non-financial liabilities		
Provision for letters of credits and letters of guarantees	2,601,138	1,460,924
Advances received for wheat	2,090,120	1,391,283
Taxes payable, other than income tax	480,443	320,799
Due to employees	74,728	138,296
Advance billings under construction contracts	2,444	77,533
Advances received under share holding agreements on construction	-	15,000
	5,248,873	**3,403,835**
	10,687,029	**8,531,699**

The exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 36.

33 Insurance contract provisions

	Gross 2013 ’000 KZT	Reinsurance 2013 ’000 KZT	Net 2013 ’000 KZT
Unearned premium provision	5,199,811	(1,840,760)	3,359,051
Provision for claims incurred but not reported	1,244,898	(595,912)	648,986
Provision for claims reported but not settled	166,690	-	166,690
	6,611,399	**(2,436,672)**	**4,174,727**

	Gross 2012 ’000 KZT	Reinsurance 2012 ’000 KZT	Net 2012 ’000 KZT
Unearned premium provision	3,281,244	(1,336,037)	1,945,207
Provision for claims incurred but not reported	691,922	(467,448)	224,474
Provision for claims reported but not settled	44,759	(13,429)	31,330
	4,017,925	**(1,816,914)**	**2,201,011**

Assumptions and sensitivity analysis

Process used to determine the assumptions

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related external claims handling expenses, less amounts already paid. The provision for claims is not discounted for the time value of money.

The sources of data used as inputs for the assumptions are typically internal to the Group, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market information or other published information. There is, however, a general lack of publicly available information on the Kazakhstan insurance market that would be relevant to identification of assumptions and sensitivities.

The estimation of incurred but not reported claims (IBNR) is generally subject to a greater degree of uncertainty than the estimates of outstanding claims already notified, where more information is available. IBNR claims may often not be apparent to the Group until sometime after the occurrence of the event giving rise to the claim. Due to the generally short tail nature of the Group’s portfolio a substantial amount of claims are settled within one year after the occurrence of the event giving rise to the claim.

Claims provisions for three classes of insurance (obligatory vehicle owner`s liability, voluntary transport insurance and voluntary medical insurance) are estimated using a range of statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key statistical method is the chain ladder method, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost.

The actual method or blend of methods used varies by the class of insurance contract based on observed historical claims development.

33 Insurance contract provisions, continued

Assumptions and sensitivity analysis, continued

Process used to determine the assumptions, continued

Large claims are generally assessed separately and are measured on a case by case basis or projected separately in order to allow for the possible distorting effects on development and incidence of these large claims.

Claims provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross IBNR estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the IBNR reinsurance asset.

The Actuary of the Group is responsible for calculation of insurance reserves.

For other classes of insurance, not mentioned above, IBNR is calculated as 5% of gross premium due to lack of statistics.

Assumptions

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident years. The expected loss ratio is the ratio of expected claims to earned premiums. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, risks connected with the insurance contract – death as a result of an accident, ongoing effects, recovery time, time between date of occurrence of the insured event and the settlement date).

Sensitivity analysis

Management believes that, due to the short-tailed nature of the Group’s business, the performance of the Group’s portfolio is sensitive mainly to changes in expected loss ratios. The Group adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

34 Deferred tax liabilities

(a) Recognised deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets or liabilities as of 31 December 2013 and 2012. Deferred tax assets are recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group’s ability to claim the deductions in future periods.

Deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2019.

34 Deferred tax liabilities, continued

(a) Recognised deferred tax assets and liabilities, continued

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property, plant and equipment and investment property	-	-	(4,209,006)	(1,994,055)	(4,209,006)	(1,994,055)
Intangible assets	-	-	(89,137)	(89,137)	(89,137)	(89,137)
Inventories	77,688	108,831	-	-	77,688	108,831
Financial instruments at fair value through profit or loss	4,497	-	-	(31,904)	4,497	(31,904)
Loans to customers	-	-	(69,944)	(69,944)	(69,944)	(69,944)
Trade and other receivables	-	-	(240,350)	(217,388)	(240,350)	(217,388)
Trade and other payables	-	-	(17,771)	(24,684)	(17,771)	(24,684)
Loans and borrowings	7,613	7,613	-	-	7,613	7,613
Tax loss carry-forwards	178,830	214,337	-	-	178,830	214,337
Recognised tax assets/(liabilities)	268,628	330,781	(4,626,208)	(2,427,112)	(4,357,580)	(2,096,331)
Set off of tax	(268,628)	(300,501)	268,628	300,501	-	-
Recognised net tax assets/(liabilities)	**-**	**30,280**	**(4,357,580)**	**(2,126,611)**	**(4,357,580)**	**(2,096,331)**

(b) Movement in temporary differences

'000 KZT	**Balance 1 January 2013**	**Recognised in profit or loss**	**Disposal of subsidiary**	**Balance 31 December 2013**
Property, plant and equipment and investment property	(1,994,055)	(2,460,011)	245,060	(4,209,006)
Intangible assets	(89,137)	-	-	(89,137)
Inventories	108,831	(31,143)	-	77,688
Financial instruments at fair value through profit or loss	(31,904)	36,401	-	4,497
Loans to customers	(69,944)	-	-	(69,944)
Trade and other receivables	(217,388)	(20,125)	(2,837)	(240,350)
Trade and other payables	(24,684)	6,913	-	(17,771)
Loans and borrowings	7,613	-	-	7,613
Tax loss carry-forwards	214,337	(35,507)	-	178,830
	(2,096,331)	**(2,503,472)**	**242,223**	**(4,357,580)**

'000 KZT	**Balance 1 January 2012**	**Recognised in profit or loss**	**Recognised directly in equity**	**Balance 31 December 2012**
Property, plant and equipment and investment property	(1,701,213)	(495,632)	202,790	(1,994,055)
Intangible assets	(89,019)	(4)	(114)	(89,137)
Inventories	113,807	(4,976)	-	108,831
Financial instruments at fair value through profit or loss	(690,195)	658,291	-	(31,904)
Loans to customers	(7,717)	(62,227)	-	(69,944)
Trade and other receivables	97,817	(316,367)	1,162	(217,388)
Trade and other payables	249,645	(270,377)	(3,952)	(24,684)
Loans and borrowings	7,613	-	-	7,613
Tax loss carry-forwards	322,615	(42,935)	(65,343)	214,337
	(1,696,647)	**(534,227)**	**134,543**	**(2,096,331)**

35 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares 2013**	**Ordinary shares 2012**
Authorised shares	18,750,000	18,750,000
Par value, KZT	1,000	1,000
On issue at beginning and end of year	**18,750,000**	**18,750,000**

(b) Additional paid-in capital

During 2013 the Company transferred additional paid-in capital of KZT 14,490 thousand to retained earnings.

(c) Dividends

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In accordance with Kazakhstan legislation the distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory unconsolidated financial statements prepared in accordance with International Financial Reporting Standards. As at 31 December 2013 the Company has retained earnings, including the profit for the year, of KZT 16,209,088 thousand (2012: KZT 14,403,582 thousand).

The Company declared no dividends during the year ended 31 December 2013 and thereafter (2012: nil).

(d) Contributions from non-controlling interest

During 2013 Tsesnabank JSC issued an additional 3,500,000 ordinary shares at KZT 1,800 per share (2012: 2,800,000 ordinary shares were issued at KZT 1,800 per share). Shares were partially purchased by third parties. As a result, in 2013 non-controlling interest increased by KZT 6,004,766 thousand (2012: non-controlling interest increased by KZT 1,458,513 thousand).

(e) Reserves for general banking and insurance risks

Until 2013 year, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSC on 31 January 2011, the Group should establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSC on 25 December 2006) during the preceding year. Such percentage increase will be not less than 10% and not more than 100%.

Transfer from retained earnings to the reserve for general banking risks of KZT 5,142,171 thousand was made for the year ended 31 December 2013 (2012: KZT 4,146,175 thousand).

The statutory reserve for general banking risks is non-distributable.

(f) Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Group has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013. As at 31 December 2013 the non-distributable dynamic reserve is KZT 16,631,209 thousand.

36 Risk management

Management of risk is fundamental to the Group's business and is an essential element of its operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Bank and other financial subsidiaries

The Board of Directors of the Bank have overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank and other financial subsidiaries operate within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees, and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the Bank and other financial subsidiary organisational structures. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Company and other commercial subsidiaries

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company and other commercial subsidiary risk management frameworks. Matters related to the risk management system in the Company are first reviewed by the Board of Directors Committee and then by the Board of Directors itself.

The Management Board has established Risk Management Service, which is responsible for the development and monitoring of the risk management policies of the Company and other commercial subsidiaries. The Management board reports its findings to the Board of Directors on a regular basis.

The Board has a Risk Management Committee, which is responsible for developing and monitoring the Company's and other commercial subsidiaries' risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company and other commercial subsidiary risk management policies are established to identify and analyse the risks faced by the Company and other commercial subsidiaries, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Company and other commercial subsidiary, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

36 Risk management, continued

(b) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Bank and other financial subsidiaries

Overall authority for market risk is vested in the ALCO, chaired by the Chairman of the Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank and other financial subsidiaries manage their market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Board of Directors.

ALCO sets risk limits which are approved by the Board of Directors. The Risk Department performs regular monitoring of the risk size and controls over the set risk limits.

The management of interest rate risk, a component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

The Bank also utilises Value-at-Risk (“VaR”) methodology to monitor currency risk of its currency positions.

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out include risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The Company and other commercial subsidiaries

Overall authority for market risk is vested in the Risk Management Service, which reports its findings to the Management Board. The Company and other commercial subsidiaries buy and sell financial instruments, and also incur financial liabilities, in order to manage market risks.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank and other financial subsidiaries

The primary goal of the Bank and other financial subsidiary interest rate policies is to limit the negative impact of changes in interest rates. The Bank and other financial subsidiaries monitor the sensitivity to interest rate changes by analysing the structure of interest-bearing assets and liabilities.

36 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

The Bank and other financial subsidiaries, continued

The Bank and other financial subsidiaries manage interest rate risks by the following means:

- analysis of current interest rate disruption, calculation and analysis of minimal and current interest spread taking into account the evaluation of credit risk
- calculation of minimum interest rates on asset operations and maximum interest rates on liability operations taking into account currencies and maturity periods
- regular analysis of the sensitivity to interest rate changes
- setting and regular monitoring of limits for interest rate risk, and in case of their violation taking measures to bring the accepted risk to the set limits.

The Company and other commercial subsidiaries

For the Company and other commercial subsidiaries, changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company and other commercial subsidiary exposures should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company and other commercial subsidiaries over the expected period until maturity.

36 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

’000 KZT	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No maturity	Non-interest bearing	Carrying amount
31 December 2013								
ASSETS								
Cash and cash equivalents	36,770,339	1,400,000	-	-	-	-	58,789,535	96,959,874
Loans and advances to banks	2,923,337	-	617,606	4,918,002	-	-	-	8,458,945
Financial instruments at fair value through profit or loss	2,882,339	-	13,781,668	4,041,117	-	-	245,568	20,950,692
Available-for-sale financial assets	-	-	70,256	1,709,459	-	-	3,396,022	5,175,737
Held-to-maturity investments	-	137,339	2,966,771	25,113,093	-	-	-	28,217,203
Loans to customers	79,350,113	55,748,220	227,653,257	237,397,455	55,727,130	-	16,747,354	672,623,529
	121,926,128	**57,285,559**	**245,089,558**	**273,179,126**	**55,727,130**	**-**	**79,178,479**	**832,385,980**
LIABILITIES								
Loans and borrowings	16,575,047	517,776	12,185,901	23,198,222	31,093,191	4,655,822	-	88,225,959
Current accounts and deposits from customers	53,673,602	35,143,756	277,939,588	240,907,596	9,419,085	-	77,147,919	694,231,546
Deposits and balances from banks	962,785	9,138,858	1,978,019	6,051,750	5,176,000	-	-	23,307,412
	71,211,434	**44,800,390**	**292,103,508**	**270,157,568**	**45,688,276**	**4,655,822**	**77,147,919**	**805,764,917**
	50,714,694	**12,485,169**	**(47,013,950)**	**3,021,558**	**10,038,854**	**(4,655,822)**	**2,030,560**	**26,621,063**

36 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

'000 KZT	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No maturity	Non-interest bearing	Carrying amount
31 December 2012								
ASSETS								
Cash and cash equivalents	2,290,717	-	-	-	-	-	40,603,021	42,893,738
Loans and advances to banks	425,183	1,400,000	2,314,618	2,321,123	-	-	2,272,119	8,733,043
Financial instruments at fair value through profit or loss	1,498,492	448,633	29,371,005	-	-	-	93,015	31,411,145
Available-for-sale financial assets	982,462	-	821,143	-	-	-	3,839,265	5,642,870
Held-to-maturity investments	804,623	-	9,267,336	7,612,761	-	-	388,675	18,073,395
Loans to customers	33,842,707	52,747,632	150,074,318	169,865,146	43,717,235	-	28,579,255	478,826,293
	39,844,184	**54,596,265**	**191,848,420**	**179,799,030**	**43,717,235**	**-**	**75,775,350**	**585,580,484**
LIABILITIES								
Loans and borrowings	50,749	936,334	3,722,606	10,052,098	25,305,796	3,964,441	4,391,522	48,423,546
Current accounts and deposits from customers	31,148,502	63,405,527	163,843,928	190,041,107	5,116,863	-	64,265,131	517,821,058
Deposits and balances from banks	28,217	203,834	141,665	7,034,637	200,000	-	178,538	7,786,891
	31,227,468	**64,545,695**	**167,708,199**	**207,127,842**	**30,622,659**	**3,964,441**	**68,835,191**	**574,031,495**
	8,616,716	**(9,949,430)**	**24,140,221**	**(27,328,812)**	**13,094,576**	**(3,964,441)**	**6,940,159**	**11,548,989**

36 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %			2012 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	0.36	0.01	0.01	-	1.80	2.89
Loans and advances to banks	8.86	8.90	-	4.91	8.98	-
Financial instruments at fair value through profit or loss	3.38	-	-	3.62	3.98	-
Available-for-sale financial assets	6.50	-	-	6.01	-	-
Held-to-maturity investments	4.86	-	-	3.99	-	-
Loans to customers	15.79	9.69	6.39	14.10	10.61	7.40
Interest bearing liabilities						
Loans and borrowings	9.10	8.00	-	9.34	6.39	EuroLIBOR + 4.75
Current accounts and deposits from customers						
- Current accounts and demand deposits	2.04	-	-	2.21	-	-
- Term deposits	7.73	5.13	4.28	7.52	6.20	5.32
Deposits and balances from banks						
- Vostro accounts	-	-	-	-	-	-
- Term deposits	7.99	5.33	5.73	7.46	4.34	4.35

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

’000 KZT	**2013**		**2012**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	333,418	333,418	84,330	84,330
100 bp parallel fall	(333,418)	(333,418)	(84,330)	(84,330)

36 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

’000 KZT	2013		2012	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	298,706	324,228	337,613	337,613
100 bp parallel fall	(298,706)	(324,228)	(337,613)	(337,613)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

’000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	20,907,344	74,308,279	1,744,250	96,959,874
Loans and advances to banks	6,743,195	1,715,750	-	8,458,945
Financial instruments at fair value through profit or loss	20,927,353	19,168	4,171	20,950,692
Available-for-sale financial assets	5,175,737	-	-	5,175,737
Held-to-maturity investments	28,217,203	-	-	28,217,203
Loans to customers	457,782,153	209,007,422	5,833,954	672,623,529
Trade and other receivables	14,107,172	1,795,605	70,251	15,973,028
Total assets	**553,860,157**	**286,846,224**	**7,652,626**	**848,359,008**
Liabilities				
Loans and borrowings	86,011,678	2,214,281	-	88,225,959
Current accounts and deposits from customers	454,093,480	234,405,703	5,732,363	694,231,546
Deposits and balances from banks	14,141,259	7,176,519	1,989,634	23,307,412
Trade and other payables	5,319,987	117,723	446	5,438,156
Total liabilities	**559,566,404**	**243,914,226**	**7,722,443**	**811,203,073**
Effect of derivatives held for risk	**45,446,200**	**(45,446,200)**	**-**	**-**
Net position as at 31 December 2013	**39,739,953**	**(2,514,202)**	**(69,817)**	**37,155,935**

36 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

’000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	36,354,690	3,770,712	2,758,336	42,893,738
Loans and advances to banks	5,888,674	2,844,364	5	8,733,043
Financial instruments at fair value through profit or loss	29,490,221	1,902,245	18,679	31,411,145
Available-for-sale financial assets	3,229,799	2,409,127	3,944	5,642,870
Held-to-maturity investments	18,073,395	-	-	18,073,395
Loans to customers	415,542,125	58,069,457	5,214,711	478,826,293
Trade and other receivables	13,798,605	1,020,121	84,061	14,902,787
Total assets	**522,387,509**	**70,016,026**	**8,079,736**	**600,483,271**
Liabilities				
Loans and borrowings	44,533,398	2,953,814	936,334	48,423,546
Current accounts and deposits from customers	441,725,187	69,606,065	6,489,806	517,821,058
Deposits and balances from banks	7,297,294	336,799	152,798	7,786,891
Trade and other payables	5,075,187	41,215	11,462	5,127,864
Total liabilities	**498,631,066**	**72,937,893**	**7,590,400**	**579,159,359**
Net position as at 31 December 2012	**23,756,443**	**(2,921,867)**	**489,336**	**21,323,912**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013		**2012**	
’000 KZT	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
20% appreciation of USD against KZT	(402,272)	(402,272)	(467,499)	(467,499)
20% depreciation of USD against KZT	402,272	402,272	467,499	467,499
20% appreciation of other currencies against KZT	(11,171)	(11,171)	78,294	78,294
20% depreciation of other currencies against KZT	11,171	11,171	(78,294)	(78,294)

36 Risk management, continued

(b) Market risk, continued

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 10% change in all securities prices is as follows:

’000 KZT	**2013**		**2012**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
10% increase in securities prices	9,270	280,954	7,441	314,582
10% decrease in securities prices	(9,270)	(280,954)	(7,441)	(314,582)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures).

The Bank and other financial subsidiaries

The Bank’s policies and procedures include guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The Bank’s credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers (corporate, SME and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the Corporate Business Development Department, which is responsible for the corporate loan portfolio. Reports produced by the department’s credit analysts are based on a structured analysis focusing on the customer’s business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department’s Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. Before approval of independent transactions by the Credit Committee, they are reviewed by the Legal and Collateral Departments on the basis of the risk specification. The Credit Committee reviews the loan credit application on the basis of documents submitted by the Loan, Risk, Legal and Collateral Departments.

36 Risk management, continued

(c) Credit risk, continued

The Bank and other financial subsidiaries, continued

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Retail Business Development Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to recognised credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to Note 23 - Loans to customers.

State securities of the Republic of Kazakhstan and accrued income on them are classified in accordance with the lowest long term rating of the Republic of Kazakhstan.

The Company and other commercial subsidiaries

Trade and other receivables

The Company and other commercial subsidiaries' exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Company and other commercial subsidiaries have not established a formal policy under which clients are selected and analysed. However, losses have occurred infrequently within the Company and other commercial subsidiaries.

The Company and other commercial subsidiaries do not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The Company and other commercial subsidiaries establish an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Loans to related parties

The Company and other commercial subsidiaries' exposure to credit risk is influenced mainly by the individual characteristics of each related party borrower. The Company and other commercial subsidiaries have policies and procedures for the management of credit exposures.

36 Risk management, continued

(c) Credit risk, continued

The Company and other commercial subsidiaries, continued

Loans to related parties, continued

The Company and other commercial subsidiaries' credit policy establish:

- methodology for the credit assessment of counterparties
- procedures for the ongoing monitoring of credit exposures.

The Company and other commercial subsidiaries do not require collateral in respect of loans to related parties.

The Company and other commercial subsidiaries establish an allowance for impairment that represents its estimate of incurred losses in respect of loans to related parties. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Company and other commercial subsidiaries limit their exposure to credit risk through thorough analysis of financial statements and business plans of potential investments.

Guarantees

The Company and other commercial subsidiaries' policy is to provide financial guarantees only by approval of the parent company and only to agricultural producers. While issuing the guarantee the Company and other commercial subsidiaries consider the financial position and history of relationship with the guarantee. There are no limits for guarantees issued.

Exposure to credit risk

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2013 ’000 KZT	2012 ’000 KZT
ASSETS		
Cash and cash equivalents	81,473,859	32,563,590
Loans and advances to banks	8,458,945	8,733,043
Financial instruments at fair value through profit or loss	20,706,345	31,007,655
Available-for-sale financial assets	360,991	1,803,605
Held-to-maturity investments	28,217,203	18,073,395
Loans to customers	672,623,529	478,826,293
Trade and other receivables	15,973,028	14,902,787
Total maximum exposure	**827,813,900**	**585,910,368**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 23.

As at 31 December 2013 the Group has no debtors or groups of connected debtors (2012: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

36 Risk management, continued

(c) Credit risk, continued

Impairment losses on trade and other receivables

The aging of trade receivables at the reporting date was:

’000 KZT	**Gross 2013**	**Impairment 2013**	**Gross 2012**	**Impairment 2012**
Not past due	12,814,401	-	12,330,867	-
Past due 0-30 days	1,754,790	(175,479)	1,428,845	(142,885)
Past due 31-120 days	1,403,836	(350,959)	1,143,076	(285,769)
Past due 121-365 days	1,052,878	(526,439)	857,307	(428,654)
Past due more than one year	701,918	(701,918)	571,537	(571,537)
	17,727,823	**(1,754,795)**	**16,331,632**	**(1,428,845)**

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group’s statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Bank will process receivables and payables in a single settlement process or cycle.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- loans to customers collateralised by cash on bank's deposits; and
- sale and repurchase agreements, and reverse sale and repurchase agreements.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty’s failure to post collateral. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

36 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

'000 KZT Types of financial assets/liabilities	Gross amounts of recognised financial asset/ liability	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash collateral received	Net Amount
Loans to customers	34,246,910	-	34,246,910	-	(12,830,457)	21,416,453
Securities pledged under repurchase agreements	16,814,229	-	16,814,229	(15,945,917)	-	868,312
Amounts receivable under reverse repurchase agreements	2,905,004	-	2,905,004	(2,905,004)	-	-
Total financial assets	**53,966,143**	**-**	**53,966,143**	**(18,850,921)**	**(12,830,457)**	**22,284,765**
Current accounts and deposits from customers	12,830,457	-	12,830,457	(12,830,457)	-	-
Current accounts and deposits from customers	542,562	(542,562)	-	-	-	-
Amounts payable under repurchase agreements	15,945,917	-	15,945,917	(15,945,917)	-	-
Total financial liabilities	**29,318,936**	**(542,562)**	**28,776,374**	**(28,776,374)**	**-**	**-**

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2012:

'000 KZT Types of financial assets/liabilities	Gross amounts of recognised financial asset/ liability	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash collateral received	Net amount
Loans to customers	23,147,309	-	23,147,309	-	(10,854,005)	12,293,304
Amounts receivable under reverse repurchase agreements	277,005	-	277,005	(277,005)	-	-
Total financial assets	**23,424,314**	**-**	**23,424,314**	**(277,005)**	**(10,854,005)**	**12,293,304**
Current accounts and deposits from customers	10,854,005	-	10,854,005	(10,854,005)	-	-
Current accounts and deposits from customers	399,279	(399,279)	-	-	-	-
Total financial liabilities	**11,253,284**	**(399,279)**	**10,854,005**	**(10,854,005)**	**-**	**-**

36 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of assets that can easily be liquidated as protection against any interruption to cash flow
- monitoring statement of financial position liquidity ratios against regulatory requirements.

The Bank and other financial subsidiaries

The Treasury Department of the Bank receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The Company and other commercial subsidiaries

The Company and other commercial subsidiaries’ approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company and other commercial subsidiaries’ reputations.

Typically the Company and other commercial subsidiaries ensure that they have sufficient cash on demand to meet expected expenses for a period of 30 days and servicing of financial obligations for a period of 90 days; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

36 Risk management, continued

(d) Liquidity risk, continued

The Company and other commercial subsidiaries, continued

The following tables show the undiscounted cash flows on financial liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The expected cash flows on these financial assets and liabilities and credit related commitments can vary significantly from this analysis.

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

’000 KZT	0-6 months	6-12 months	1-2 Years	2-3 years	3-4 Years	4-5 years	Over 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities									
Loans and borrowings	21,214,110	16,809,038	9,317,569	7,358,028	6,754,614	6,574,565	53,846,506	121,874,430	88,225,959
Current accounts and deposits from customers	264,499,582	194,600,165	72,910,643	72,910,643	72,910,643	72,910,643	16,031,261	766,773,580	694,231,546
Deposits and balances from banks	8,832,787	3,621,654	1,857,902	1,857,902	1,857,902	1,857,902	9,109,925	28,995,974	23,307,412
Trade and other payables	2,240,300	3,178,062	19,794	-	-	-	-	5,438,156	5,438,156
Total liabilities	**296,786,779**	**218,208,919**	**84,105,908**	**82,126,573**	**81,523,159**	**81,343,110**	**78,987,692**	**923,082,140**	**811,203,073**
Credit related commitments	**186,009,507**	**-**	**-**	**-**	**-**	**-**	**-**	**186,009,507**	**186,009,507**

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

’000 KZT	0-6 months	6-12 months	1-2 Years	2-3 years	3-4 Years	4-5 years	Over 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities									
Loans and borrowings	4,603,988	2,339,017	4,306,496	4,263,809	3,320,576	3,198,252	45,283,170	67,315,308	48,423,546
Current accounts and deposits from customers	228,573,058	108,639,745	56,546,392	56,546,392	56,546,392	56,546,392	8,909,364	572,307,735	517,821,058
Deposits and balances from banks	1,190,529	499,127	1,850,826	1,850,826	1,850,826	1,850,826	347,238	9,440,198	7,786,891
Trade and other payables	285,002	4,842,870	-	-	-	-	-	5,127,872	5,127,864
Total liabilities	**234,652,577**	**116,320,759**	**62,703,714**	**62,661,027**	**61,717,794**	**61,595,470**	**54,539,772**	**654,191,113**	**579,159,359**
Credit related commitments	**156,355,190**	**-**	**-**	**-**	**-**	**-**	**-**	**156,355,190**	**156,355,190**

36 Risk management, continued

(d) Liquidity risk, continued

In accordance with Kazakhstan legislation, retail term deposits can be withdrawn at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

- from 1 to 3 months: KZT 11,060,461 thousand (2012: KZT 8,274,486 thousand)
- from 3 to 12 months: KZT 29,583,713 thousand (2012: KZT 23,673,708 thousand)
- more than 1 year: KZT 161,169,954 thousand (2012: KZT 116,529,490 thousand).

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

36 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	95,559,874	1,400,000	-	-	-	-	-	96,959,874
Loans and advances to banks	2,923,337	135,549	482,057	4,918,002	-	-	-	8,458,945
Financial instruments at fair value through profit or loss	2,882,339	3,397	13,592,496	4,112,838	115,275	244,347	-	20,950,692
Available-for-sale financial assets	-	-	70,256	1,370,028	339,412	3,396,041	-	5,175,737
Held-to-maturity investments	-	137,339	2,966,771	25,113,093	-	-	-	28,217,203
Loans to customers	78,675,217	56,151,959	227,924,414	235,862,633	55,727,130	-	18,282,176	672,623,529
Trade and other receivables	1,323,437	1,828,214	10,784,657	6,488,224	58,573	8,174,688	1,727,810	30,385,603
Current tax asset	-	-	-	-	-	2,583,535	-	2,583,535
Inventories	-	-	-	-	-	2,274,599	-	2,274,599
Investment property	-	-	-	-	-	8,922,352	-	8,922,352
Property, plant and equipment	-	-	-	-	-	26,559,493	-	26,559,493
Intangible assets	-	-	-	-	-	1,107,541	-	1,107,541
Total assets	**181,364,204**	**59,656,458**	**255,820,651**	**277,864,818**	**56,240,390**	**53,262,596**	**20,009,986**	**904,219,103**
Non-derivative liabilities								
Loans and borrowings	16,238,041	890,981	11,222,719	23,851,237	31,376,694	4,646,287	-	88,225,959
Current accounts and deposits from customers	131,262,958	35,143,756	277,491,046	240,907,596	9,419,085	7,105	-	694,231,546
Deposits and balances from banks	962,785	5,977,361	5,139,516	6,051,750	5,176,000	-	-	23,307,412
Trade and other payables	1,419,601	771,475	4,322,465	4,114,583	56,330	2,575	-	10,687,029
Insurance contract provisions	10,508	294,495	6,285,813	20,583	-	-	-	6,611,399
Current tax liabilities	-	-	-	-	-	14,567	-	14,567
Deferred tax liabilities	-	-	-	-	-	4,357,580	-	4,357,580
Total liabilities	**149,893,893**	**43,078,068**	**304,461,559**	**274,945,749**	**46,028,109**	**9,028,114**	**-**	**827,435,492**
Net position	**31,470,311**	**16,578,390**	**(48,640,908)**	**2,919,069**	**10,212,281**	**44,234,482**	**20,009,986**	**76,783,611**

36 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	42,893,738	-	-	-	-	-	-	42,893,738
Loans and advances to banks	705,501	1,597,938	2,747,186	3,682,418	-	-	-	8,733,043
Financial instruments at fair value through profit or loss	1,498,493	448,633	14,014,415	15,022,571	36,487	390,546	-	31,411,145
Available-for-sale financial assets	44,426	-	-	1,156,815	646,790	3,794,839	-	5,642,870
Held-to-maturity investments	499,795	-	9,197,407	7,939,968	304,828	-	131,397	18,073,395
Loans to customers	57,375,796	52,747,632	150,074,318	168,253,397	43,717,235	-	6,657,915	478,826,293
Trade and other receivables	7,575,026	1,135,481	8,588,173	1,720,004	2,356	7,163,505	1,240,695	27,425,240
Current tax asset	-	-	-	-	-	262,949	-	262,949
Inventories	-	-	-	-	-	2,704,758	-	2,704,758
Investment property	-	-	-	-	-	11,917,227	-	11,917,227
Property, plant and equipment	-	-	-	-	-	15,898,758	-	15,898,758
Intangible assets	-	-	-	-	-	1,133,644	-	1,133,644
Deferred tax assets	-	-	-	-	-	30,280	-	30,280
Total assets	**110,592,775**	**55,929,684**	**184,621,499**	**197,775,173**	**44,707,696**	**43,296,506**	**8,030,007**	**644,953,340**
Non-derivative liabilities								
Loans and borrowings	831,571	330,942	4,306,862	14,016,539	25,219,958	3,717,674	-	48,423,546
Current accounts and deposits from customers	49,024,726	110,004,015	163,634,347	190,041,107	5,116,863	-	-	517,821,058
Deposits and balances from banks	368,029	562,872	705,885	5,958,105	192,000	-	-	7,786,891
Trade and other payables	1,730,964	535,919	5,803,882	460,934	-	-	-	8,531,699
Insurance contract provisions	6,542	183,343	3,815,226	12,446	368	-	-	4,017,925
Current tax liabilities	-	-	-	-	-	12,077	-	12,077
Deferred tax liabilities	-	-	-	-	-	2,126,611	-	2,126,611
Total liabilities	**51,961,832**	**111,617,091**	**178,266,202**	**210,489,131**	**30,529,189**	**5,856,362**	**-**	**588,719,807**
Net position	**58,630,943**	**(55,687,407)**	**6,355,297**	**(12,713,958)**	**14,178,507**	**37,440,144**	**8,030,007**	**56,233,533**

37 Capital management

The FMSC sets and monitors capital requirements for the Bank and other financial subsidiaries.

The Company and other commercial subsidiaries are not subject to externally imposed capital requirements.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group maintains a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Group, being a banking conglomerate, defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSC banking conglomerates have to maintain a ratio of total capital to risk weighted assets and contingent liabilities above the prescribed minimum level. As at 31 December 2013, this minimum level of total capital to risk weighted assets and contingent liabilities is 0.10 (2012: 0.10). As at 31 December 2013, this ratio is 0.11 (2012: 0.13). The Group was in compliance with the statutory capital ratio as at 31 December 2013 and 2012.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FMSC banks have to maintain: a ratio of tier 1 capital to total assets and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2013, this minimum level of tier 1 capital to total assets is 5% (2012: 5%) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk is 10% (2012: 10%). The Bank was in compliance with the statutory capital ratios as at 31 December 2013 and 2012.

38 Credit related commitments

At any time the Group has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2013 '000 KZT	**2012 '000 KZT**
Contracted amount		
Guarantees	62,932,738	54,941,443
Loan and credit line commitments	120,347,544	101,227,406
Letters of credit	2,551,248	87,553
Credit card commitments	177,977	98,788
	186,009,507	**156,355,190**

The total outstanding credit related contractual commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

39 Operating leases

(a) Leases as lessee

Operating lease rentals as at 31 December are payable as follows:

	2013 '000 KZT	2012 '000 KZT
Less than one year	240,459	260,617

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Certain of the lease agreements can be cancelled upon payment of a penalty. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 3,060,683 thousand was recognised as an expense in profit or loss in respect of operating leases (2012: KZT 2,290,278 thousand).

(b) Leases as lessor

The Group leases out its investment property under operating leases. Operating lease rentals as at 31 December are receivable as follows:

	2013 '000 KZT	2012 '000 KZT
Less than one year	88,608	76,477
	88,608	**76,477**

The lease period on most operating lease agreements does not exceed one year. The Group does not incur any operating expenses in earning lease income. All the maintenance costs under lease agreements are paid by lessees.

40 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial position or the results of future operations.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

40 Contingencies, continued

(c) Taxation contingencies, continued

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the Group, if the authorities were successful in enforcing their interpretations, could be significant.

41 Related party transactions

(a) Transactions with the members of the Board of Directors and the Management Board

(i) Management remuneration

Key management of the Group received KZT 745,274 thousand as remuneration during the year ended 31 December 2013, which is included in personnel costs (2012: KZT 666,951 thousand).

(ii) Other transactions

Loans to directors of KZT 136,524 thousand (2012: KZT 173,235 thousand) are included in loans to customers. The average interest rate on these loans is 10.38% (2012: 10.27%).

Current accounts and deposits of directors of KZT 1,924,105 thousand (2012: KZT 2,589,389 thousand) are included in current accounts and deposits from customers. The average interest rate on these deposits is 8.51% (2012: 7.8%).

(b) Transactions with other related parties

Other related parties are represented by other entities under common control of the shareholders. The outstanding balances as at 31 December 2013 and 2012 and related profit or loss amounts of transactions for the years ended 31 December 2013 and 2012 with other related parties are as follows:

	2013 ’000 KZT	Average interest rate	2012 ’000 KZT	Average interest rate
Consolidated statement of financial position				
Assets				
Available-for-sale financial assets	-	-	895,180	-
Loans to customers	2,849,754	9.33%	5,588,042	12.07%
Trade and other receivables	281,644	-	1,355,800	-
Liabilities				
Loans and borrowings	-	-	158,273	5.90%
Current accounts and deposits	2,060,684	5.33%	1,989,570	7.94%
Trade and other payables	47	-	1,465,537	-
Consolidated statement of comprehensive income				
Banking income	330,814	-	499,337	-
Banking expenses	(76,949)	-	(127,635)	-
Non-banking revenue	489,495	-	614,004	-
Non-banking cost of sales, distribution and administrative expenses	(41,029)	-	(1,705,604)	-
Other income	22,068	-	4,162	-
Non-banking financial income	-	-	(4,493)	-
Non-banking financial expense	-	-	29,495	-
Commitments				
Guarantees issued	1,251,569	-	1,483,126	-
Guarantees received	22,000	-	22,000	-
Contingent liabilities	831,584	-	781,266	-

42 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale financial assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. As disclosed in Note 21, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 42,527 thousand cannot be determined (2012: KZT 42,530 thousand).

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

’000 KZT	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	-	96,959,874	-	-	96,959,874	96,959,874
Loans and advances to banks	-	-	8,458,945	-	-	8,458,945	8,458,945
Financial instruments at fair value through profit or loss	20,950,692	-	-	-	-	20,950,692	20,950,692
Available-for-sale financial assets	-	-	-	5,175,737	-	5,175,737	5,175,737
Held-to-maturity investments	-	28,217,203	-	-	-	28,217,203	27,651,337
Loans to customers	-	-	672,623,529	-	-	672,623,529	673,244,207
Trade and other receivables	-	-	15,973,028	-	-	15,973,028	15,973,028
	20,950,692	**28,217,203**	**794,015,376**	**5,175,737**	**-**	**848,359,008**	**848,413,820**
Loans and borrowings	-	-	-	-	88,225,959	88,225,959	86,712,184
Current accounts and deposits from customers	-	-	-	-	694,231,546	694,231,546	700,433,858
Deposits and balances from banks	-	-	-	-	23,307,412	23,307,412	23,307,412
Trade and other payables	-	-	-	-	5,438,156	5,438,156	5,438,156
	-	**-**	**-**	**-**	**811,203,073**	**811,203,073**	**815,891,610**

42 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

’000 KZT	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	42,893,738	-	-	42,893,738	42,893,738
Loans and advances to banks	-	-	8,733,043	-	-	8,733,043	8,733,043
Financial instruments at fair value through profit or loss	31,411,145	-	-	-	-	31,411,145	31,411,145
Available-for-sale financial assets	-	-	-	5,642,870	-	5,642,870	5,642,870
Held-to-maturity investments:	-	18,073,395	-	-	-	18,073,395	17,120,097
Loans to customers	-	-	478,826,293	-	-	478,826,293	490,999,948
Trade and other receivables	-	-	14,902,787	-	-	14,902,787	14,902,787
	31,411,145	**18,073,395**	**545,355,861**	**5,642,870**	**-**	**600,483,271**	**611,703,628**
Loans and borrowings	-	-	-	-	48,423,546	48,423,546	48,908,509
Current accounts and deposits from customers	-	-	-	-	517,821,058	517,821,058	527,226,875
Deposits and balances from banks	-	-	-	-	7,786,891	7,786,891	7,786,891
Trade and other payables	-	-	-	-	5,127,864	5,127,864	5,127,864
	-	**-**	**-**	**-**	**579,159,359**	**579,159,359**	**589,050,139**

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

42 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates 10.59% – 12.83% and 12.41% – 21.42% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 2.0% – 5.7% and 4.5% – 8.1% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively

quoted market prices are used for determination of fair value of debt securities issued.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2013. The amounts are based on the values recognised in the statement of financial position:

	Level 1 ’000 KZT	Level 2 ’000 KZT	Level 3 ’000 KZT	Total ’000 KZT
Financial assets				
Financial instruments at fair value through profit or loss	1,857,664	18,897,954	195,074	20,950,692
Available-for-sale financial assets				
- Debt and other fixed income instruments	219,768	1,613,216	-	1,832,984
- Equity investments	-	3,342,753	-	3,342,753
	2,077,432	**23,853,923**	**195,074**	**26,126,429**

42 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2013, are classified as level 2 in the fair value hierarchy. As at 31 December 2013 financial instruments categorised to Level 2 category include government securities of KZT 16,416,069 thousand.

The table below analyses financial instruments measured at fair value as at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1 ’000 KZT	Level 2 ’000 KZT	Level 3 ’000 KZT	Total ’000 KZT
Financial assets				
Financial instruments at fair value through profit or loss	1,918,324	29,182,346	310,475	31,411,145
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	1,803,605	-	1,803,605
- Equity investments	-	3,839,265	-	3,839,265
	1,918,324	**34,825,216**	**310,475**	**37,054,015**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2012, are classified as Level 2 in the fair value hierarchy. As at 31 December 2012 financial instruments categorised to Level 2 category include government securities of KZT 24,523,531 thousand.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

’000 KZT	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	96,959,874	-	96,959,874	96,959,874
Loans and advances to banks	-	8,458,945	-	8,458,945	8,458,945
Loans to customers	-	633,557,910	39,686,297	673,244,207	672,623,529
Held-to-maturity investments	9,146,401	18,504,936	-	27,651,337	28,217,203
Trade and other receivables	-	15,973,028	-	15,973,028	15,973,028
Liabilities					
Loans and borrowings	-	86,712,184	-	86,712,184	88,225,959
Current accounts and deposits from customers	-	700,433,858	-	700,433,858	694,231,546
Deposits and balances from banks and other financial institutions	-	23,307,412	-	23,307,412	23,307,412
Trade and other payables	-	5,438,156	-	5,438,156	5,438,156

42 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2012:

’000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	36,048,431	-	36,048,431	36,048,431
Loands and advances to banks	15,578,350	-	15,578,350	15,578,350
Loans to customers	473,455,445	17,544,503	490,999,948	478,826,293
Held-to-maturity investments	17,120,097	-	17,120,097	18,073,395
Trade and other receivables	14,902,787	-	14,902,787	14,902,787
Liabilities				
Loans and borrowings	48,908,509	-	48,908,509	48,423,546
Current accounts and deposits from customers	527,226,875	-	527,226,875	517,821,058
Deposits and balances from banks and other financial institutions	7,786,891	-	7,786,891	7,786,891
Trade and other payables	3,403,835	-	3,403,835	3,403,835

43 Subsequent events

(a) Devaluation of Kazakhstan tenge

On 11 February 2014, the NBRK announced that it was devaluing the KZT. The NBRK said in its statement that the currency will now trade at KZT 185 per USD, with a range of 3 KZT on either side. After the announcement on 12 February 2014 the KZT closed at 184.50 per USD, down approximately 19% from the close of KZT 155.56 per USD on 10 February 2014. As the devaluation occurred after the reporting date, these financial statements have not been adjusted for the rate change.

(b) Loan from Development Bank of Kazakhstan

In January 2014 the Group has concluded an agreement to obtain a loan for the total amount of KZT 10 billion within the Program of supporting the industrial-innovation development of the Republic of Kazakhstan through provision of financing by the Development Bank of Kazakhstan to second-tier banks, to be used for further financing of private companies, investment projects and export operations. The loan was obtained by the Bank at 7.9% per annum and maturity date on 30 January 2019. Nominal interest rate for final borrower on such loans is limited up to 11.5% per annum.

44 Subsidiaries

A full list subsidiaries of the Company that were audited by an independent auditor for the purposes of these consolidated financial statements, and the assets, liabiliaties and financial results of which are included in these consolidated financial statements, is provided below. All subsidiaries were incorporated in Kazakhstan.

Name of the entity	Main activity
Tsesna Financial Holding JSC	Holding company for the Bank
Tsesnabank JSC	Banking
Tsesna Capital JSC	Brokerage and asset management
Subsidiary Company of Tsesnabank JSC Insurance Company Tsesna Garant JSC	Insurance
Tsesna International B.V.	Attraction of international finance for the Bank
Subsidiary Company of Tsesnabank JSC Tsesna OUCA LLC	Loan collecting
Medet Holding LLC	Property management
InfoTses Newspaper LLC	Newspaper publishing
Concern Tsesna Astyk JSC	Sales of agricultural products
Tsesna-Mak LLC	Sales of agricultural products and foodstuffs
Tsesna Astyk Breadplant LLC	Sales of foodstuffs
Tsesna Astyk Elevator LLC	Grain storage
Alma-Tses LLC	Sales of agricultural products and foodstuffs
Akmola Dirmen LLC	Leasing of mill complex